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China Report

ECONOMIC AFFAIRS



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NATIONAL POLICY AND ISSUES

DISCUSSION OF ECONOMIC REFORM, ECONOMIC LAW

Wuhan WUHAN DAXUE XUEBAO [JOURNAL OF THE WUHAN UNIVERSITY] in Chinese No 4, 1985 pp 27-32

[Article by Luo Mingda [5012 2494 6671]: "On the Reform of the Economic System and Economic Law"]

[Text] The Resolution of the CPC Central Committee on the Reform of the Economic System (hereafter, for short, "the Resolution"), adopted at the 3d Plenum of the 12th CPC Central Committee, points out: "The reform of our economic system and the development of our national economy require that more and more of our standards and principles of economic relations and economic activities be consolidated in legal form. The legislative organs of the state must speed up economic legislation, the law courts must speed up adjudication of economic cases, the procuratorates must speed up the investigation of economic crimes, and the judicial departments must energetically provide legal service for the benefit of the economic construction." This resolution of the Central Committee amply signifies the extremely close relationship between the reform of the economic system and economic law, and the extremely important place and role that economic law occupies in the reform of the economic system. It is therefore necessary to start a discussions on the topic of economic reform and economic law, combined with the present reform practice, a necessity for the promotion of smooth progress in the reform and for its healthy development as well as for the perfection of our economic law itself.

1. Liberation of the Social Productive Forces, the Essence of the Reform of Our Economic System

The reform of the entire economic system, with the main focus on the cities and with its core link being the strengthening of vitality in our enterprises, that we are presently carrying out is "a reform, conducted on the premise of firmly upholding the socialist system, of the whole series of mutually interrelated linkages and aspects in our production relations and in the superstructure, which we find inconsistent with the development of our productive forces." It is an intensification and development of all the various reforms in town and countryside since the 3d Plenum of the 11th CPC Central Committee. It is another broad and deeply penetrating revolution under the leadership of the CPC, carried out by the Chinese people of all nationalities. The essence of this revolution is the liberation of China's

productive forces from the fetters of the present economic system and allowing them to develop and progress with greater speed, greater effectiveness and an abundance of vitality.

The term "economic system" is the collective name for all the various specific systems of the social economic structure and the state's economic controls; it is the concrete reflection and manifestation of certain production relations. According to the fundamental principles of Marxism stating that the production relations must be consonant with the nature of the productive forces and that the superstructure must be consonant with the economic foundation, the economic system of a country must be conditioned by the developmental level of its social productive forces and any other of its national conditions. The economic system that fits the country's developmental level of social productive forces and is consonant with the country's national conditions will have the effect of promoting the development of the productive forces; in the opposite case, it will obstruct and hinder the development of the productive forces.

China's present economic system, established in the early years after the founding of the PRC in emulation of the Soviet economic system of those days, and later gradually developed under the influence of an erroneous "Leftist" guiding ideology, is a highly centralized, unitarian economic system. Under this type of economic system, enterprises actually become appendages of the state's administrative organs. All economic activity has to follow the baton of the administrative organ, while the enterprises lack all the self-determination that should be theirs in matters of production and business operations. The inevitable result was a fusion of governmental administrative and enterprise business functions, a divisiveness between central and local authorities, the phenomenon of "all helping themselves from the public pot," a situation which seriously hampered production and business enthusiasm in the enterprises and among the broad masses of staff and workers, strangled all vitality in the socialist economy and fettered the development of the social productive forces.

As to the sources of its ideology, the present economic system with its excessive centralization is closely linked with the immutably fixed concept of an absolute nature of the socialist planned economy, a concept that does not recognize or does not fundamentally recognize the historical necessity of developing commodity economy during the socialist stage. In other words, this "Leftist" immutably fixed concept is the theoretical foundation of our present highly centralized economic system. It is precisely because of this "Leftist" immutably fixed concept that people regard planned economy and commodity economy as antagonistic opposites. The commodity production and commodity exchanges that objectively exist during the socialist stage are erroneously regarded as something that "has to be restrained under the proletarian dictatorship," and that must not be allowed to develop, otherwise it would lead to "revisionism" or "capitalism." It must be pointed out that this "Leftist" immutably fixed concept, which is divorced from reality, and the economic system that formed and developed under the guidance of this concept is not consonant with the realities of the socialist stage, is divorced from the present developmental level of China's productive forces and is not in harmony with China's national condition.

The practice of socialist construction has proven that since production has not yet developed to a high degree and social products are not yet available in abundance, the ownership system in the socialist stage not only maintains the two forms of public ownership, namely ownership by the whole people and ownership by the collectives of the masses, but also preserves individual economy and other economic patterns as complements to the public ownership economy of socialism. Between all economic entities, social organizations and the broad masses of workers, there still exist, in addition to the community of basic interests, the special individual interests of each group, and the exchanges of labor between them can only take place on the principle of mutual exchanges of equal labor. The existence and development of commodity economy throughout the entire historical stage of socialism is therefore inevitable. Maintaining an accurate view of the objective reality and proceeding on the only way that history prescribes will lead to the development of production and prosperity of all undertakings. In the opposite case, one will have to suffer the penalties of the objective law. This is the way of historical dialectics.

A great contribution in theory and practice made by the 3d Plenum of the 12th CPC Central Committee was its scientific summing up of the historical experiences of socialist construction and its recognition, based on an integration of the cardinal principles of Marxism with the Chinese reality, that socialist economy "is a commodity economy on the foundation of a public ownership system," thus providing a firm theoretical foundation for the reform of the entire economic system with its main focus on the cities. The task that we are now faced with is to have to take this theory as our guideline in resolutely breaking down the fetters of the leftist erroneous guiding ideology and of other outworn concepts. We must thoroughly reform the present economic system that has for a long time restrained the development of China's social productive forces and must start out from the realities of China's condition in going our own road to build up a socialist economic system with Chinese characteristics, filled with an abundance of vitality, to promote the development of our social productive forces.

2. Economic Law, an Important Legal Weapon That Guarantees the Smooth Realization of the Reform of Our Economic System

The reform of the economic system is a deeply penetrating social revolution for the liberation of productive forces. Our complete victory in this revolution is decisive for the fundamental turn for the better in the country's finances and economy, for the realization of the struggle objective set by the 12th CPC Central Committee, namely of quadrupling the gross industrial and agricultural output value by the end of this century, as it is equally important for building China into a modern, strong socialist state with a high degree of material and spiritual civilization. The reform is therefore presently the principal concern of the entire party and all the people of the nation, as it is the country's overall great affair. All other work must directly or indirectly serve this objective and submit to its test as to whether any such other work is to be pursued or not. Economic law, which regulates the economic relations, is an important sector of our socialist legal system; it is an important tool used by the state to guide, organize and

control the national economy. Because it is so much closer to the basic economic relations, it is so much more sensitive in its reactions to developments and changes in the economic foundation, and more substantial and forceful in its impact on the foundation. Its special function and mission is therefore to safeguard the smooth progress and healthy development of the reform and to provide the legal weapon for the realization of the reform objectives.

(1) Economic law is legal assurance for the mobilization and organization of the people to devote themselves to the practices of the reform.

The reform of China's economic structure conforms to the demands of the historical development of society, is consonant with the objective economic law and manifests the interests and aspirations of the people. This is why the reform is warmly endorsed and supported by the masses. However, due to the long-term influence of an erroneous "Leftist" guiding ideology and the many policy changes, to which must also be added the occasional wilful encroachment on the citizens' activities of gaining prosperity through work, the people generally hope for the state to consolidate in law its policy of reform, of opening up and of invigorating the economy, so that their lawful interests will receive the recognition and protection of the law. This state of mind among the people, namely of having more faith in law than in policies, reflects a lingering fear of the "Leftist" errors of the past. However, it also explains that economic law, providing affirmative, clear, definite and generally applicable norms, is indeed highly effective in reassuring, mobilizing and organizing the masses to devote themselves to the practices of the reform.

(2) Economic law is to straighten out whatever improper economic relations come to light during the reform as requiring adjustments, and economic law is also an important legal weapon to remove all interferences and obstructions.

During the reform of the economic system, following the separation of government administration and enterprise management and the broadening of self-determination for the enterprises, the lateral economic relations continuously increased and economic intercourse rapidly blossomed forth. This is evidence for the fact that the nation's economy recovered its vitality, and is the inevitable result of the reform. However, since the reform is a deeply penetrating revolution, it is unavoidable that encroachments and obstructions of various kinds should also occur. Conspicuous instances of such are the cases in the earlier stages when economic organizations or citizens took advantage of the reform to commit violations of the state's plan and laws, to conduct improper competition, to arbitrarily raise prices, to indiscriminately issue bonuses or materials, and when some party or government organs used the powers of office to run enterprises for personal gain, etc. It is for this reason that economic law, through its regulation of economic relations, moves the reform on to the track of the socialist legal system and provides a powerful protection for all those economic relations and economic activities that conform to the demands of the reform and are capable of promoting the development of the productive forces. It will resolutely suppress and mete out punishment if economic relations and economic activities run counter to the purpose of the reform, interfere with the progress of the reform and

obstruct the development of the productive forces. In this manner economic law becomes the important legal weapon for the regulation of the various economic relations that surface in the course of the reform, for promoting the smooth progress of the reform and to ensure the realization of the reform objectives.

(3) Economic law is an important tool for the strengthening and perfecting of party and government guidance in the reform of the economic system.

The reform of the economic system is a social transformation of broad and deeply penetrating dimensions and of an extremely complex nature, as it is also a grand exploratory and innovative undertaking of mass character, as has never before been carried out. For our complete victory in this reform, it is necessary to strengthen and perfect party and government leadership throughout the entire reform, "change the method of solely relying on administrative measures to control the economy, integrate economic and administrative measures, pay attention to the use of economic levers and to control the economy by means of economic laws." (Footnote 1) Economic laws are party and state economic policies rendered concrete and textually visible in identifiable form as norms. The current economic laws are the overall party and state guidelines for the reform, for the opening up of the country and for the invigoration of the economy, formulated from different viewpoints and dealing with different aspects, possessed of the common characteristics of stability, authoritativeness and general applicability. Using economic law in leading the reform will assist the party and the government in giving meticulous guidance and powerful direction to the reform, will ensure that the entire reform progresses in a planned manner, step by step and in good order, and that victory will be gained with zealous, yet also reliable and safe action.

As a great revolutionary practice, the economic reform possesses an extremely high degree of authoritativeness. If economic law is to fulfill all its functions in the service of the reform of the economic system, it must accurately reflect the objective economic law and give expression to the objective demands of the reform. It has therefore become an urgent task in China's present efforts to build up its legal system, to direct strong efforts toward the building up of its economic laws, based on the demands of the reform of the economic system.

3. Speeding up economic legislation, a pressing demand of the reform.

Just as there have been great achievements in the building up of China's entire socialist legal system since the 3d Plenum of the CPC Central Committee, great achievements have also been made in China's economic legislation. During this period of time, the state formulated and promulgated over 30 economic laws and other documents of important normative nature, regulating economic relations. The documents of normative nature, such as regulations, rules and resolutions, issued by the State Council and its subordinate ministries and commissions number more than 300. These agencies, furthermore, compiled a Plan for 1982 to 1986 Economic Legislation. According to a resolution by the State Council, all state organs at whatever level are in the last few years sorting out, comprehensively, all laws and regulations

issued since the establishment of the PRC. Following the 3d Plenum of the 12th CPC Central Committee, the state's legislative organs, according to the "Resolution" of the Central Committee, accelerated the work of economic legislation and again drafted, formulated and promulgated a number of important economic laws. The Third Session of the Sixth NPC deliberated and passed a Resolution on Granting Authority to the State Council To Issue Provisional Regulations or Rules Regarding the Reform of the Economic System and the Opening Up Toward the Outside World. All the above-mentioned laws, regulations and measures have played a very important role in promoting and safeguarding the reform of the entire economic system with its special focus on the cities.

However, we must also realize that due to such factors as the influence of the erroneous "Leftist" ideology, the poor foundation on which China's legal system is being built and the low level from which this buildup starts out, also due to the fact that many current individual economic laws lack normative nature or are of low normative nature, and, furthermore, due to the rapid developments in the state of the reform, economic legislative work can still not yet satisfy all the needs of the reform. In the present social and economic life, the problem of "no law to follow" has not yet been radically solved. It still occasionally happens that the masses speak of conditions that are "rational but not legal" or that are "legal but not rational." Acceleration of economic legislation, therefore, still remains the core link in the building of the legal system, otherwise it will not be possible for economic law to be highly effective in its service to the reform.

How to accelerate economic legislation? I believe the following has to be done, energetically and emphatically:

(1) We must one step further clarify the guiding ideology of economic legislation.

The guiding ideology of legislation is what in jurisprudence is called the legislative motivation or legislative intention. It demands a reply from the legislator to the questions why to legislate and what to legislate, what social effect is to be achieved by the legislation, etc. These questions seem like an ideological line that permeates all the articles of every law; they determine the character of each law, its task, purpose and direction and are the most important and most fundamental questions in all legislative work.

Following the 3d Plenum of the 11th CPC Central Committee and through their efforts to bring order out of chaos, the party and the state restored the Marxist ideological line, political line and organizational line, while the focus of work was shifted to economic construction, and the work of socialist modernization was acknowledged by the constitution as the fundamental task of the whole nation. In the last few years, the guiding ideology in our economic legislation was, therefore, generally speaking, a correct one, displaying the spirit of the constitution and consonant with the demands of the reform while also beneficial for the promotion of the development of the productive forces. However, investigating the situation according to practical standards, there are still certain questions that require further clarification, or that must be straightened out one step further. First, some of the current economic

laws and regulations still show a tendency to regard planned economy as something absolute and give insufficient attention to the promotion of the development of the socialist commodity economy. They thereby lose, altogether or partly, their effectiveness in the reform as to the regulation of economic relations and thereby also adversely influence their own relative stability. Second, some departments or localities draft state or local economic laws and regulations without giving full consideration to the situation as a whole, some even go so far as to seek to extend their departmental or territorial powers by means of drafting certain laws and regulations. These problems on the one hand reflect the fact that we have not yet thoroughly discarded the fetters of the erroneous "Leftist" guiding ideology or of other outworn concepts, and that our thinking has not yet been fully liberated. On the other hand it also reflects the fact that certain departments or localities are influenced by unhealthy tendencies and still tend to use the powers of office for personal gains.

The "Resolution" of the Central Committee points out: "The fundamental task of socialism is to develop the social productive forces, that is, to enable more and more social wealth to be brought forth, and to continuously satisfy the daily growing material and cultural needs of the people." Economic law is precisely promoting the development of the social productive forces by means of regulating the economic relations. Those working in economic legislative work must therefore firmly espouse the ideology of bringing about legislation that will promote the development of the social productive forces and that will promote the socialist modernization projects. They must use the ideology as the most important criterion to test their own legislative guiding ideology as to whether it is clear, definite and correct. If it should not be thus, our economic legislative work will lose direction, central substance and soul.

(2) Planning all economic legislation must start out from the idea of accurate coordination of the relationship between an enlivened microeconomy and macroeconomic control.

The core link of the reform of our economic system with special focus on the cities is the effort to strengthen the vitality of our enterprises and invigoration of the microeconomy. However, it is not possible to separate invigoration of the microeconomy from macroeconomic control. Without an enlivened microeconomy, it is of course out of the question to speak of macroeconomic control. In the opposite case, without macroeconomic control, microeconomic invigoration would lose its direction and objective and in the end fail in its purpose. Economic legislation must therefore accurately reflect this inherent relationship of dialectic unity. Whether in our concepts and plans for our entire legislative work, or in the drafting and formulating of a particular piece of legislation, we must always pay attention to coordinate the two accurately to avoid control being lost due to the one-sidedness of legislation macroeconomic or microeconomic endeavors ending in failure.

We must affirm that under the conditions of socialism in China, due to the community of interests between state, collectives and individuals and the community of interests between the situation as a whole and its parts, also between the immediate and the remotely future interests, economic legislation

not only must, but actually can accurately coordinate microeconomic invigoration and macroeconomic control, ensuring that the national economy will harmoniously develop in a vigorous way without becoming chaotic. As far as legislative work is concerned, the focus of present attention is still on invigorating the microeconomy and energetically developing socialist commodity economy. Invigorating must be carried out solidly and not only in empty words. In the preceding period, some economic organizations, to enable themselves to issue bonuses and materials indiscriminately, indulged in boasting and exaggerating and created only a false image invigorating the economy, while no enterprise was in reality being truly invigorated. According to the provisions in the Central Committee's "Resolution," the criterion for the determination whether an enterprise is truly invigorated should be whether its production has been developed and whether its performance has been improved. The concept and plan in economic legislation must focus on urging the leadership and the masses of staff and workers to apply great skill on economizing in live labor and materialized labor and show themselves truly capable in this respect. We must urge people to achieve high results by starting out from improving enterprise business management, from exploiting potential, renovating, transforming and from the development of intelligence, and not to start out from doing harm to the interests of the state and the consumers and in that way get "results." In summary, coordinating the relationship between invigorating the microeconomy and macroeconomic control is at present an important problem that must be solved in economic legislative work.

(3) We must accelerate local economic legislation on the premise of not conflicting with provisions of the constitution, laws and administrative regulations.

Comrade Deng Xiaoping pointed out as early as in 1978: "We have presently a large volume of legislative work and we are short of manpower. Our laws may therefore first be rather roughly worded, they may later be gradually perfected. Some regulations may be first tried out by localities, to be later, after summing up experiences and improving the regulations, formulated into laws that are to be enforced throughout the country." (2)

In the present reform of the entire economic system with primary focus on the cities, the first important step has been taken. In the course of the reform, many new questions will require prompt decisions which will have to have legal force. Among such questions, those for which legislative conditions have matured, the state's legislative organ may promptly draw up laws. Those that belong in the sphere of administrative norms should be handled by the State Council, which should draw up administrative laws and regulations. In addition, many new complex questions, beyond the sphere that should be regulated by administrative laws and regulations, we still lack practical experiences to solve. These require further exploration and trials, and the state's legislative organs should draw up new or supplemental provisions. In those cases where conditions are not yet ripe for amendments, action should be taken according to the "Resolution on Delegating Authority," deliberated and passed at the Third Session of the Sixth NPC. The State Council should then draw up flexible and adaptable provisional regulations or provisional statutes.

Due to the vast territory and huge population of China, extreme differences exist in the economic conditions and level of development of different localities. In order to start out from the actual conditions, the reform must be carried out in conformity with local conditions. Local legislative organs must observe the provisions of the constitution in speedily determining their economic laws and regulations of local nature. Presently, we do not have too many economic laws and regulations of a local nature; they are in fact most inadequate, and not at all in harmony with the developments of economic legislation for the entire country. We must realize that without proper coordination between local economic legislation and such legislation for the entire country, it will be impossible to practically implement the economic laws promulgated by the state, which will have an adverse effect on the efforts of the state to establish a perfect legal system for the whole country.

To strengthen local economic legislation, we must first demand that the local leadership at all levels strengthen their concept of the legal system, raise their own consciousness of law and overcome the attitude of merely following "the will of the boss." Second, we must provide local legislative personnel and raise the quality of their knowledge of economic law and the level of professional ability. Finally, the local economic legislation must form a complete system with the national economic legislation; it must be in line with and of service to the national legislation.. At the same time, economic laws and regulations of a local nature must not conflict with the provisions of the constitution, of pertinent laws, of administrative laws and regulations or with the provisional rules and regulations determined according to the "Resolution on Delegating Authority." Local legislation must also be limited to sectional reform questions within the jurisdiction of the locality in question. If the matter concerns the execution of important reforms of nationwide character, it is the State Council that must effect a uniform disposition. Reforms that have a bearing on the overall situation or affect a broad sphere can only be put into effect after approval by the State Council.

(4) We must integrate this work with the overall cleanup of all laws and regulations issued since the establishment of the PRC and conscientiously do a good job of compiling a compendium of current economic laws and regulations to have them gradually form a complete system.

According to the resolution of the State Council, the central and local state organs are now carrying out a cleanup of all laws and regulations issued since the establishment of the PRC. On the foundation of this work, the state's legislative organs must do a good job of compiling and straightening out the currently valid economic laws and regulations. Those that do not more meet the demands of the reform and of the modernization drive must be revoked in proper legislative procedure. Those that are mutually contradictory must also be readjusted in proper legislative procedure. Where blanks exist, a record should be made in the plan for economic legislation, and action should be taken to fill the gaps, step by step, according to the principle of giving preference to the more important and urgent legislation. Through compilations and adjustments, China's economic laws and regulations shall gradually be

shaped into a uniform entity, internally well linked together, to have them observed and implemented by the judicial organs and the entire people.

(5) Close attention must be paid to the scientific nature and feasibility of economic laws and regulations.

Economic legislation is scientific work of greatest gravity. Under no circumstances must it be undertaken carelessly or perfunctorily. Each law or regulation that is to be enacted must have been investigated and studied by an experimental unit. We must possess a large and reliable corpus of legislative data and in addition institute comprehensive scientific deliberations, to get to the state that every new law or regulation will be consonant with reality and science and will be feasible. Only if we recognize that an article is up to standards should we enact that article, but never feel forced to enact an article that we feel is not up to standards; otherwise, no matter how many laws we enact and how fast we enact them, they will be useless, or even have the opposite effect to what we intended.

4. Energetic Development of Education in Economic Law and Training of Personnel Proficient in Economic Law

Comrade Deng Xiaoping said in the "Resolution" that "the most important part is Article 9." "Article 9 says, to put it briefly in four words, 'respect knowledge, respect talent'." (3) This important directive by Comrade Deng Xiaoping is also absolutely applicable to the buildup of the economic legal system. There is a saying: "Having merely law without the means to apply it." Even with the best of economic legislative work, if there is not a large contingent of cadres well versed in economic law to implement it, the laws will not by themselves regulate social economic relations and promote the development of productive forces. Worse still, if the problem of economic law personnel is not solved, it will also not be possible to be truly successful in the work of economic legislation. We must realize that after the thorough implementation of the policy of "opening up toward the outside and invigorating the domestic economy" and after the development of our modernization drive, there will be a rapidly increasing demand for economic law personnel. The requirement of enterprises for long-term legal advisors alone will be for not less than 10,000 persons. Economic law as an independent department of law and of jurisprudence has emerged only after the 3d Plenum of the 11th CPC Central Committee. It is only in the last few years that all higher law schools and colleges and colleges of finance and economics throughout the country are starting courses in economic law. To say that there is an extreme shortage of legal personnel is talking about a great weakness in the state's personnel requirements. In this extreme shortage, there is an even more extreme shortage of economic law personnel, a great weakness within a weakness. The energetic development of economic law education and training of economic law specialists has therefore become an outstanding problem in the building of our economic legal system.

In the development of education in economic law, the key is to find persons qualified to teach. Those now engaged in teaching economic law throughout the country number around 200, mostly middle-aged teachers of around 50. We admit that this contingent is quite good. In recent years, these people, working

and living under difficult conditions, have shouldered a heavy work load inside and outside their institutions. They did arduous exploratory work in economic law theory, also participated actively in the state's economic law legislation and made many valuable contributions toward the building up of the economic law system in China. However, in the same way as it is true of the entire contingent of our qualified teachers of law, the problem that exists among the teachers of economic law is that there are too few, their qualifications are weak, and that by age and knowledge they are somewhat outdated. To solve this problem, we must on the one hand vigorously push education and improvement of quality of the present teachers, directing our efforts to a variety of different targets and employing a variety of different patterns, and on the other hand those institutions that have favorable conditions must expand accepting post-graduate students or institute post-graduate courses in economic law, and in this way exert great efforts in training a new force of students to supplement the present contingent of teachers. In this way alone will we be able to provide a solid foundation for China's undertaking of education in economic law.

To develop China's undertaking of economic law education, we furthermore require teaching material that is fairly complete in the treatment of the subject, that has a fresh approach with new breakthroughs and is relatively solid. In the last few years, China has produced several editions of economic law textbooks which have indeed been very effective in meeting the pressing needs of instruction and in fulfilling the instructional task. However, economic law is a new department within jurisprudence that is only now being opened up and is still in the stage of initial development. Furthermore, much material is continuously being added by the reform and by new economic laws and regulations, while some of its older substance has become outdated. For all these reasons, we must now use new material and new research results in supplementing and revising our teaching material. We must bring out textbooks of highest perfection, showing new breakthroughs, new creations and a relative stability. At the same time, the scope of economic law is very broad; it touches on the legal regulation of all the various sectors of the national economy. We must therefore compile sectional economic law textbooks in a planned manner, step by step, gradually combining them into a fairly complete branch of a scientific system. This will be beneficial for the promotion of developments in all branches of the national economy. In compiling teaching material we must conscientiously implement the "hundred schools" policy, allow teaching material to express the ideas of different schools and publish material of different standards, different levels and in different editions. We must not indulge in a uniformity of patterns, editions and tones, so as to benefit the development of economic jurisprudence.

To meet the urgent need for economic law personnel in our modernization drive, we must exert efforts to produce many talents of high quality. In our standards and instructional patterns for the training of talents, we must take our base on the principle of combining popularization with raising quality, and in our instructional pattern adopt a variety of standards and proceed on many levels and in many forms. Well-qualified law institutions and finance and economics colleges may institute special economic law disciplines or special economic law sections, enroll post-graduate students of economic law or institute post-graduate courses in economic law and train specialist in

economic law who will be conversant with law, know foreign languages and have a mastery of modern technology. Generally, institutions that set up economic law courses within the law discipline should make these courses compulsory. At the same time, through training courses or through a pattern of classes run jointly by colleges and actual departments and enterprises, we must carry out the training of economic and judicial personnel presently serving, also of lawyers, notaries public and legal advisors of enterprises, members of legislative bodies, and personnel in administrative charge of economic contracts. In addition, training of economic law personnel could be done through instructions by periodicals, by correspondence or through television universities popularizing economic law knowledge. Regardless of what form of instruction is used, we must in all of them strive for quality and focus attention on raising the quality of knowledge of economic law among our students, and this not only for the purpose of gaining a diploma or a record of formal instruction.

FOOTNOTES

1. Zhao Ziyang, "The Present Economic Situation and Future Policy of Economic Construction," People's Publ. Co., 1981 ed., p 40.
2. "Selected Works of Deng Xiaoping" p 137.
3. Deng Xiaoping, "Building a Socialism With Chinese Characteristics," People's Publ. Co., 1984 ed., p 61.

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CSO: 4006/174

ECONOMIC DEVELOPMENT ZONES

TIANJIN REFORMS, OPENING, ECONOMIC GAINS NOTED

Beijing LIAOWANG HAIWAIBAN [OUTLOOK WEEKLY] in Chinese No 9, 3 Mar 86 pp 16-17

[Article: "The Reform and Opening of Tianjin"]

[Text] Tianjin is one of three municipalities under the direct jurisdiction of the Central Committee. As China promotes reform and opens up, what are the present circumstances and trends in Tianjin's economy?

Comprehensive Reforms Have Brought Visible Results

Comprehensive reform of its economic structure has been stressed in Tianjin for more than a year and the effects are already visible:

--Enterprises have been invigorated and there have been notable gains in economic results. In 1985, Tianjin's GVIO reached more than 28 billion yuan, an increase of more than 12.5 percent over the previous year. As to net output value, it is estimated that new product operations accounted for more than 10 percent of output value. The quality of goods has risen steadily and the rate of top-grade products has reached 30 percent; numerous products have received gold and silver quality awards, which puts Tianjin in the front ranks of the nation. The growth in total income from product sales and real profits was higher than the growth rate in output value. Both individual labor productivity for industrial enterprises and local government income increased more than 10 percent over the previous year. After-tax profits for enterprises has been gradually increasing annually, and with the addition of credit assistance financed by the state and by banks, the technological transformation of enterprises has made great strides. In 1984, all together 60 important technological transformation projects were completed in the municipality; the overall investment of 1.16 billion yuan was able to produce an increase in output value of 2.55 billion yuan and increase tax receipts by 740 billion yuan.

--Price reforms are moving ahead smoothly, buying and selling has been brisk and markets have been stable. Beginning in May, 1985, Tianjin Municipality has proceeded with coordinated, integrated price reforms for meat, eggs, fowl, vegetables, aquatic, and other related products. The basic idea behind these reforms is the rationalization of prices, adjustment of supply and demand, stimulation of the flow of goods and markets that are flourishing. In order to prevent a fall in the living standard following an increase in commodity prices, the municipal government will extend a subsidy to each worker and his

family on the price of nonstaple food items and has also adopted a series of measures that will allow state-run commerce to play a leading role in the market and in the leveling of prices. The latest price hike in nonstaple foods was significant, but it did not result in any serious jolt to society because both markets remained basically steady and people stayed calm. Producers are becoming more and more active as sideline agricultural production showed a significant increase. The number of hogs, laying hens, and beef cattle on hand and the volume of aquatic production has either doubled or tripled in growth over the last year. The numerous channels for and methods of business purchases and sales and the unfolding competition between the state, collective, and individual enterprises, and the various other organizations that integrate buying and selling, is mutually complementary, for it is triggering an increase in product variety on markets, a rise in quality, a tendency toward a more balanced supply between high and low seasons and an improvement in service.

--The reform of the wage system is the first step into a new era. The wage system for middle and grade school teachers as well as state agency units will be based on the reform program established by the State Council, which means a switch to a structured wage course. The rather low incomes of both intellectuals and workers for these units will be increased noticeably and steps will be taken to establish as a foundation the principle of tying individual income to work achievements, professional duties, and the division of labor. Enterprise units are universally proceeding with the reform that calls for them to pay their own wages and to draw a portion from their bonus fund and tie it to workers achievements. Because increases in workers wages are tied to the after-tax profits of an enterprise, many poorly administered enterprises have consequently made a great effort to raise economic gains. Since the first stage of the wage structure reforms has been implemented, the cost of living and income of Tianjin residents in 1985 increased more than 20 percent over the previous year and savings deposits for both urban and town dwellers increased by more than 30 percent.

--Macroeconomic controls have been clearly effective. To counter phenomena such as the loss of control over various aspects of the macroeconomy that began to appear in the fourth quarter of 1984, Tianjin has adopted several strong measures to guarantee that the economy develops in a coordinated, stable way. Tianjin's fixed-capital investment scale, bank credit issuance, money supply, consumption funds and local usage of foreign exchange are all under effective control.

--Urban and rural construction are rapidly expanding: the change in the appearance of the city is striking. In the last few years, Tianjin has annually constructed more than 3 million square meters of new housing for urban and town dwellers, which exceeds total amount of new housing constructed during the period 1949 to 1980. In 1985, 250,000 square meters of low-lying, damp housing were transformed and 60 avenues were overhauled. Upon completion 2 years ago of a massive engineering project in water conservancy that brought water from the Luanhe to Tianjin, the history of bitter and salty drinking water for Tianjin residents came to a conclusion in one fell swoop. In 1984 construction of the nation's largest sewage treatment plant was completed; it can process daily 260,000 tons of sewage. In 1985, an

excellent highway that encircles the central district and semicircles the western half was completed; ground has also been broken and labor begun on the semicircling of the eastern half. The crowded traffic and transport conditions have been alleviated. During 100 days in 1984 a food commodity avenue consisting of 100 businesses carrying an assortment of flavorful items was completed and in 1985, ancient culture and international market streets were founded. Also in 1985 a 3-year universalization of availability of gas project got underway. Recently goals were set to universalize the availability of hot water within 5 years and to universalize the availability of heating within 7 years. In outlying counties, villages, and towns, highway and general construction are progressing in leaps and bounds. The first part of the engineering work to restore the ancient great wall at Jixian has been completed and it has already been opened up to foreigners.

In April, 1985, Tianjin established an overall plan for the city; it was decided that Tianjin would be turned into a city with an integrated industrial base possessing advanced technology and a multifaceted economic center with a modern, open international port. The guiding concept behind the general plan for Tianjin's overall arrangement is: "to kill two birds with one stone." The river and the ocean will be the pivot points for the entire city and the old section of the city will be transformed into the city center. Industrial development will be stressed in the eastern section and a major effort will be made to develop the coastal area. Regarding areas surrounding the city, Jixian should be actively developed into a scenic tourist area and satellite towns and cities in the outlying counties should be formed into a network somewhat like planets orbiting their sun. This is a magnificent blueprint to be achieved within a 10-year time frame and should serve to inspire the people of Tianjin to work hard and struggle for an excellent future.

The Open Door Is Progressing Nicely

Tianjin has now taken a first step in opening its doors to the outside, and both the utilization of foreign capital and the attraction of technology have progressed rapidly. Since 1979, Tianjin has signed more than 120 commercial agreements and joint capital ventures with 10 countries, including Japan, the United States, the FRG and Hong Kong. Fifty-one joint capital enterprises are already in operation and more than 80 percent of these signed contracts or began operations in 1985. Total sales for Tianjin's joint capital enterprises have already exceeded 100 million yuan and the profit rate is 24.5 percent; the majority have either balanced their foreign exchange accounts or hold a surplus.

In 1984 the State Council approved Tianjin as 1 of 14 coastal cities open to the outside and to be given priority assistance. A proposal to establish an economic and technological development zone has also been approved. Construction of an initial 3 square km area of the development zone is progressing rapidly and a section is already prepared for construction of plants employing foreign capital. Twenty-one agreements have been signed with foreign businesses and in 1986 20 enterprises will be established and begin operating.

Tianjin is moving quickly to take advantage of broader foreign exchange privileges to attract advanced foreign technology for the transformation of older industries; project standards and the effectiveness of operations have shown a marked improvement in comparison to a few years ago. Since Tianjin harbor instituted the new system of "dual leadership with localities as the leaders" in June, 1984, economic indicators have all attained record levels.

1986: Consolidation, Assimilation, and Enhancement

There are still several problems relating to Tianjin's reforms and economic development that require solutions. For example, economic gains are still short of ideal, methods of market management and supervision are still rather imperfect, production sources for exports are still deficient and the value of exports departing from Tianjin's port still has not reached optimal levels, etc. These problems necessitate continued research for solutions.

Looking a couple of years ahead at the reforms and opening of Tianjin, in general the thinking is: Things should neither speed along too quickly, nor grind to a halt, and by all means there cannot be a retreat. Furthermore, the achievements of the last few years and especially those resulting from the reforms of 1985 must be consolidated and assimilated, and there must be a realistic assessment of the guiding philosophy behind the reforms; that is, expanded privileges, simplified government control, stimulation of the micro-economy and the need to preserve the beneficial and eliminate the harmful. In order to enhance macroeconomic controls and to further liberalization and invigoration, Tianjin must correspondingly set up and perfect its markets, which includes striving to expand consumer product markets, developing production resources and money markets; at the same time it must bolster economic laws and supervision and gradually reform the economic management structure.

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AGGREGATE ECONOMIC DATA

FUJIAN 1985 ECONOMIC STATISTICS COMMUNIQUE

OW280201 Fuzhou FUJIAN RIBAO in Chinese 9 May 86 p 2

[Communique by the Fujian Provincial Statistical Bureau on the statistics of the province's 1985 economic and social development]

[Text] Under the leadership of the Fujian Provincial CPC Committee and the provincial government, people in the province further implemented the policies of invigorating the domestic economy and opening to the outside world, continued to carry out special policies and flexible measures, and deepened reform of the economic structure in 1985, thus bringing about a sustained, stable, and coordinated development of the economy. Total product of society (Note 1: Total product of society is the total sum of agricultural, industrial, building industrial, transport, postal, telecommunications, and commercial [including the material supply, marketing and catering trades] output value. National income is the total sum of the net value of the above) for 1985 was 34.35 billion yuan, a 19.2 percent increase over 1984. Of this, total industrial and agricultural output value was 27.218 billion yuan (Note 2: Total industrial and agricultural output value was 23.622 billion yuan, calculated at the constant prices of 1980), an increase of 19.8 percent over the previous year; and national income was 16.027 billion yuan, representing a 14.4 percent rise. On the basis of developed production, both buying and selling on the market were brisk, revenue and expenditure were balanced, and the incomes of people in urban and rural areas continually increased. The main problems existing in the province's economy are: The economic foundation is relatively weak, there is a strain on the supply of energy and raw and semi-finished materials and on transport and communications, and economic results are not ideal.

1. Agriculture

In 1985, the second stage of reform was carried out in depth in the rural areas, agricultural products were purchased by contract, and the structure of rural production was readjusted. As a result, the rural economy has been invigorated. Total product of rural society (Note 3: Total product of rural society embraces agricultural output value under public, collective, or individual ownership; the output value of village and town industries and of industries owned by individuals; and the output value of the building industry, transport and communications services, commerce, and

the catering trade. Its growth rate was calculated at the prices of the year, without taking raised prices into account. For 1985 it was 15.844 billion yuan, a 28.3 percent increase over 1984. Of this, the proportion of rural industrial, building industrial, commercial, and transport output value increased from 34.7 percent to 37.5 percent in 1985.

Total agricultural output value (including village industries) was 12.359 yuan in 1985, an increase of 17.2 percent over the previous year. This growth rate was higher than planned. Forestry, animal husbandry, sideline production, and fishery were further strengthened. The proportion of forestry, animal husbandry, sideline production, and fishery in total agricultural output value increased from 54.4 percent in 1984 to 59.4 percent in 1985. After deducting the output value of village industries, total agricultural output value was 9.905 billion yuan, an 8.4 percent increase over the previous year.

The cropping structure was considerably readjusted. The acreage sown to grain crops was 129,000 hectares less than in the previous year. In addition, natural disasters occurred in the province, and people in some places also relaxed their efforts at grain production. Total grain output was 7,944,000 metric tons, 559,000 metric tons less than in the previous year or a 6.6 percent decrease. All cash crops, except rapeseed, increased by a big margin.

The output of major farm products was as follows:

	1985	increase over 1984 [percent]
Grain	7,944,000 tons	-6.6
of which:		
Rice	6,811,000 tons	-6.8
Wheat	216,400 tons	-12.0
Tuber Crops	805,100 tons	-3.5
Oil-bearing Crops	173,900 tons	9.8
of which:		
Peanuts	163,400 tons	10.9
Rapeseed	9,500 tons	-6.1
Sugarcane	5,366,700 tons	13.4
Jute, Ambar Hemp	15,600 tons	96.9
Cured Tobacco	34,000 tons	39.0
Tea	40,500 tons	14.9
Fruit	494 100 tons	21.9

The further implementation of the forestry policy further enhanced the masses' enthusiasm for forestry production. Forested areas in the province covered 282,800 hectares. Output of major forestry products topped that of 1984. Output of tea-oil seeds was 3.27 tons, an increase of 38.4 percent over 1984.

Animal husbandry continued to develop. Increases were registered in the output of pork, beef, mutton, milk, poultry, and eggs, as well as in the numbers of pigs and cattle at the end of the year.

Output of major animal by-products and numbers of livestock was as follows:

	1985	Increase over 1984 [percent]
Output of pork, beef and mutton	441,800 tons	17.6
of which:		
Pork	434,800 tons	17.6
Milk	41,700 tons	17.8
Hogs slaughtered	5,780,900 head	12.2
Pigs in stock at year-end	8,368,100 head	7.3
Cattle in stock at year-end	1,184,200 head	3.1
Sheep and goats in stock at year-end	611,000 head	-2.5

Fish production continued to grow. The output of aquatic products was 760,000 tons, up 14.3 percent from 1984. Of this, the total catch of marine products was 711,800 tons, up 12.6 percent, while that of freshwater products was 48,000 tons, an increase of 46.1 percent. Of the total output of aquatic products, production of aquaculture was 243,200 tons, up 19.2 percent.

Farm machinery and rural electric power continued to increase. At the end of 1985 the aggregate power capacity of Fujian's farm machines had reached 5,096,500 horsepower, an 8.8 percent increase over 1984. The number of small tractors and walking tractors was 99,900, an increase of 11.1 percent over 1984; trucks, 7,400, an increase of 28.6 percent. The total consumption of electricity in rural areas was 1.124 billion kwh, an increase of 25.9 percent over 1984.

The province's meteorological departments improved their weather forecast work and made new contributions to agricultural production and production in other fields. Their good work also reduced losses to agricultural production caused by natural disasters.

However, the province's cultivated acreage decreased in 1985, and its irrigation facilities continued to deteriorate. Therefore, it is necessary to upgrade the province's capability to overcome natural disasters.

2. Industry

Industry continued to develop in 1985, amidst reform and opening to the outside world. Enterprises increased their vitality, light and heavy industries moved ahead fairly rapidly, there was a substantial increase in the output of readily marketable products, and economic results also rose.

The province's total industrial output value for 1985 was 14.895 billion yuan, an increase of 21.6 percent over 1984 -- a pace that exceeded the planned growth target of 10.6 percent. When added to the output value of rural industry run by villages and units lower than the village level, the total figure would be 17.313 billion yuan, a 25.4 percent increase over 1984. Of the total, the output value of state-owned industry increased 14.9 percent over the previous year, collectively owned industry grew by 29.9 percent, privately owned industry expanded its output value by 290 percent, and industry of other kinds of ownership rose by 50.1 percent. The output of 55 of the 72 major industrial products met or topped state plans, accounting for 76.4 percent. Seventeen industrial products failed to meet their 1985 planned quotas, including sulfuric acid, phosphate fertilizer, chemical insecticides, rosin, microcomputers, and crude salt.

The total light industrial output value in 1985 was 8.834 billion yuan, an increase of 20.9 percent over the previous year. The relatively rapid increase of high-grade, medium-grade, famous brand, and fine quality products contributed to improving the supply situation on the market. The variety in color and design of light industrial products continued to increase. Products that sold well on the market increased by relatively large margins.

The output of major light industrial products was as follows:

	1985	increase over (percent)
sugar	479,400 tons	39.7
canned food	133,300 tons	23.2
cigarettes	462,700 cases	17.8
beer	46,900 tons	78.3
crude salt	780,000 tons	-12.6
machine-made paper and cardboard	368,400 tons	20.2
synthetic fiber	16,500 tons	59.7
cotton cloth	154,000,000 meters	14.3
silk textiles	14,760,000 meters	13
bicycles	491,400 units	34.7
plastic products	97,800 tons	15.2
refrigerators	32,800 units	71
washing machines	42,300 units	130
audio recorders	654,700 units	315
television sets	589,500 sets	25.3
of which:		
color tv sets	406,000 sets	26.8

The total heavy industrial output value in 1985 was 6.025 billion yuan, an increase of 22.8 percent over the previous year. The situation in power output was relatively good. The output of items in short supply increased by a relatively large margin. However, the gap between supply and demand in energy and raw and processed materials was still relatively large.

The output of major heavy industrial products was as follows:

	1985	increase over 1984 (percent)
coal	6,065,300 tons	5.3
generated energy	7,720,000,000 kwhs	14.3
steel	317,500 tons	10.6
pig iron	379,900 tons	8.4
steel products	263,200 tons	4.6
lumber	4,617,600 cubic meters	10.1
resin	51,800 tons	-8.4
cement	2,906,900 tons	24.2
plate glass	1,053,100 cases	24.7
sulphuric acid	129,400 tons	9.1
caustic soda	64,100 tons	8.3
chemical fertilizer	328,800 tons	1.6
plastics	41,000 tons	10.0
chemicals	460 tons	23
generating equipment (above 500 kw capacity)	38,100 kw	120
small tractors	19,600 units	10.3

Following the development in depth of industrial structural reform with simplification of administration, delegation of power, and invigoration of enterprises as its central tasks, enterprises increased their ability to improve themselves and develop, and industrial economic results continued to improve. The average per capita output of state-run industrial enterprises was 13,036 yuan, an increase of 13.3 percent over 1984. The consumption of raw and processed materials as well as energy for major products under provincial supervision dropped as compared with the previous year. Profits and taxes turned in by state-run industrial enterprises increased 31.7 percent over 1984. The capital turnover rate was 7.8 percent faster than in 1984. However, the fixed cost of products increased 5.5 percent; the quality of some products dropped; and not all enterprises were able to make up deficits and show profits.

The state-run industrial enterprises established various forms of economic responsibility systems. The switch-over from turning in profits to paying taxes was further implemented. The percentage of state-run industrial enterprises which paid taxes in 1985 instead of turning in their profits grew to 81.1 percent from 75.3 percent in the previous year.

3. Foreign Economic Relations and Tourism

Foreign trade increased by a large margin in 1985. The province's total imports and exports in 1985 was U.S. \$1.091 billion, an increase of 63.9 percent over the previous year; of this, total exports were U.S. \$491 million, an increase of 13.3 percent over 1984, and total imports were U.S. \$600 million, an increase of 147.9 percent over 1984.

The use of foreign capital continued to increase. Some 403 new contracts involving a total of U.S. \$439 million in foreign capital were signed by the province in 1985, representing an increase of 73 percent over 1984. Of this total, U.S. \$377 million were direct investments from abroad, representing an increase of 87 percent over the previous year. The actual figure of foreign capital used in the whole year was U.S. \$177 million, an increase of 186 percent over 1984.

The province last year examined and approved 108 reports on the feasibility of importing various technologies and equipment, which involved a total investment of 433 million yuan. We also signed 305 contracts on importing technologies, and technologies imported according to 125 of these contracts had been put into operation by the end of last year. Eight of the 125 contracts involved \$1 million in foreign exchange each.

We also made progress in promoting economic and technical cooperation with foreign countries last year. We signed 74 contracts for various overseas projects and providing labor to foreign countries, which involved \$42.54 million. Some \$17.28 million of this was completed, 3.35 times more than the previous year. Our tourist industry also developed quite rapidly. In 1985, we received 355,800 people from 57 countries and regions who came for sightseeing, visits, and various exchange activities, up 31.5 percent from the previous year. Of these visitors, 76,700 were foreigners, a 42.5 percent increase over the previous years; 279,100 were Overseas Chinese and Macao and Hong Kong compatriots, an increase of 28.9 percent over the previous year. Tourist industry earnings totaled \$28.34 million last year, 24.3 percent more than the previous year.

The Xiamen Special Economic Zone and the Mawei Economic and Technological Development Zone further expanded their economic and technical relations with foreign countries. Foreigners, Hong Kong, Macao, and Taiwan compatriots, and Overseas Chinese who came to Xiamen for business, visits, meetings, and sightseeing totaled 84,700 people, 41.2 percent more than the previous year. Last year, we signed 105 contracts with foreign firms on setting up Chinese-foreign joint ventures, Chinese-foreign cooperative enterprises, and foreign-owned enterprises, with a total investment of \$242 million. Seven of these 105 investment projects involved more than \$10 million in foreign investment each. They included the Xiamen International Bank, the Hulishan Hotel, and the XIAMEN Polyester Fiber Corporation. The sand blowing [Chui sha 0706 3097] project in Qingzhou, an infrastructure project of the Mawei Economic and Technological

Development Zone, was completed ahead of schedule, leveling an area of 2 square kilometers. Five roads totaling 3,600 meters in the zone were also completed and opened to traffic.

4. Communications and Posts and Telecommunications

Communications departments made relatively good progress in the course of reform. Transportation capacity was enhanced, and passenger and cargo transportation volume increased considerably. Total turnover of cargo handled by railways, highways, ships, and barges in the province reached 12 billion metric ton-kilometers, up 11.5 percent from the previous year. Of this total turnover of cargo, 8.243 billion metric ton-kilometers were handled by railways, an increase of 18 percent; 991 million metric ton-kilometers were handled by highways, an increase of 10.2 percent; and 2.77 billion metric ton-kilometers were handled by ships and barges, a decrease of 3.8 percent. Cargo transported by civil air service totaled 3,794 metric tons, 31.2 percent more than the previous year; and cargo handled by major ports amounted to 9.13 million metric tons, up 4.2 percent from the previous year.

The total turnover of passengers carried by railways, highways, ships, and barges was 10.449 billion man-kilometers, an increase of 16.6 percent over the previous year. Of this total turnover, 3,525 billion man-kilometers were carried by railways, an increase of 17.7 percent; 6.635 billion man-kilometers were carried through highways, up 16.6 percent; and 289 million man-kilometers were carried by ships and barges, an increase of 5.1 percent. Passengers traveling by civil airliners totaled 176,900, 47.7 percent more than the previous year.

We also made considerable progress in posts and telecommunications in 1985. Total revenue earned by the industry exceeded 89.35 million yuan, up 25.9 percent from the previous year. Revenue earned by mail service increased by 15.7 percent; revenue from distributing newspapers and periodicals increased by 13.8 percent; revenue from telegraph services increased by 30.4 percent; and revenue from long distance telephone service increased by 37.9 percent. Urban households installed with a telephone reached 54,700 at the end of last year, 192 percent more than that at the end of the previous year.

The economic results of communications and posts and telecommunications departments continued to improve last year. The overall productivity of the railway transportation industry increased by 10.7 percent over the previous year. The average daily production volume of each locomotive used for driving a cargo train increased by 1.1 percent over the previous year. The fuel consumption of steam locomotives in completing each 10,000 metric-ton kilometers of transportation decreased by 0.5 percent over the previous year. Profits earned by the industry in 1985 increased by 38.1 percent over the previous year. The annual output of each metric ton of coastal freighters of the province increased by 2.5 percent over the previous year, and the utilization rate of these freighters increased by 9.4 percent. Profits earned by the posts and telecommunications industry

increased by 76.7 percent over the previous year. Nevertheless, current communications and transportation capacities still cannot meet production and circulation needs.

5. Fixed Asset Investment and Construction Industry

In 1985, the system to administer fixed asset investment was further improved, construction of capital projects was accelerated, and more efforts were devoted to modernizing existing enterprises. Some 5.428 billion yuan was spent on fixed asset investment in urban and rural areas last year, 1.985 billion more than the previous year, an increase of 57.6 percent. Of this investment, 3.71 billion yuan was invested by public-owned units, up 76.1 percent from the previous year; 889 million yuan was invested by collective-owned units in urban and rural areas; and 828 million yuan was invested by individuals. Of the fixed asset investment made by public-owned units, 2.676 billion yuan was invested in capital construction projects, an increase of 83.7 percent over the previous year. Some 549 million yuan invested in these capital construction projects was included in the state budget, an increase of 28.9 percent.

In 1985, we continued to build infrastructure projects in order to prepare for future development. Of the total capital construction investment, 532 million yuan was invested in the energy industry, 203 percent more than the previous year; 183 million yuan was invested in the communications and posts and telecommunications industries, an increase of 27.1 percent; and 184 million yuan was invested in education, an increase of 49.6 percent.

Thirty-six large and medium-sized capital construction projects were undertaken last year. Eleven of these projects have been completely or partially put into operation; they include the Yongan thermal power plant and the Qingyang sugar mill. Major output generated by the completed capital construction projects included: 120,000 metric tons of coal; 202,300 kilowatts in generator capacity; 62.86 kilometers of power transmission lines (110,000 volts or above); 2.89 million cubic meters of timber, 44,000 metric tons of cement; 26,000 metric tons of machine-made sugar; and 158,900 school seats.

Development in the Xiamen Special Economic Zone was speeded up, and the investment climate was further improved in 1985. Some 759 million yuan was invested in capital construction projects in the zone last year, 81.1 percent more than the previous year. It also increased its fixed assets by 400 million yuan, an increase of 235 percent. Floor space completed last year amounted to 991,500 square meters, 10.4 percent more than the previous year. The Mawei Economic and Technological Development Zone also made new progress in the construction of infrastructure projects. Projects involving 75 million yuan were completed in 1985.

More efforts were devoted to modernizing existing enterprises last year. Public-owned units invested 849 million yuan in this work in 1985, 45.5 percent more than the previous year. Of this investment, 533 million yuan

was invested in increasing product variety and improving product quality, an increase of 63.5 percent over the previous year; 81 million yuan was invested in reducing energy and raw material consumption and in improving product quality, and increase of 39.7 percent. Modernization programs were undertaken on 2,200 projects last year, and 1,114 of them were completed and put into operation.

We deepened our efforts to restructure the construction industry last year, which resulted in more rapid development of the industry. The contract responsibility systems in various forms was implemented on 1,105 of the 2,384 construction projects undertaken by local and state-run construction companies in 1985, which brought better economic results. Output value accomplished by these companies totaled 492 million yuan in 1985, up 23.8 percent from 1984, and their overall productivity increased by 14.9 percent.

New progress was also made in the geological field last year. Our geological workers completed 170,700 meters of drilling in geological prospecting, 34.9 percent more than the previous year. Newly discovered mineral reserves included 30.22 million metric tons of coal, 29.67 million metric tons of limestone, and 7.42 million metric tons of iron ore. In addition, we discovered 15 major mineral sources which are relatively large in size and have good geological conditions for prospecting.

6. Domestic Trade and Supply of Materials

Urban and rural markets thrived in 1985. Retail sales reached 10,709 million yuan, a 26.1 percent increase over the previous year, and after allowing for price rises, an actual increase of 14.0 percent. Of total retail sales, consumer goods amounted to 8,683 million yuan, 27.6 percent more than 1984, and farming materials and equipment totaled 1,105 million yuan, topping the previous year by 5.7 percent. Sales of major consumer goods increased by relatively big margins, including grain, 3.4 percent; edible vegetable oil, 3.8 percent; pork, 4.0 percent; eggs, 37.3 percent; sugar, 19.4 percent; woolen fabrics, 71.9 percent; silk, 23.2 percent; bicycles, 29.2 percent; cameras, 28.9 percent; electric fans, 87.0 percent; TV sets, 83.2 percent; audio tape recorders, 250 percent; washing machines, 92.9 percent; refrigerators, 270 percent; knitted underwear, 64.1 percent; and cloth, 18.7 percent.

Commercial structural reform developed significantly, and a new multi-channel commercial system with various economic forms emerged. By the end of 1985, the state had decontrolled 32 second-level industrial goods wholesale centers; a total of 1,078 small state-owned enterprises in the retail business, the catering trade, and other service trades were delegated to collectives -- turned over for collective ownership or leased to individuals. These accounted for 55.5 percent of all small enterprises. The number of urban and rural commodity fairs increased from 1,306 in 1984 to 1,359 in 1985. Trade value in 1985 amounted to 2,118 million yuan, a 34.8 percent increase over the preceding year. Retail sales

in all economic sectors increased considerably. The total amount of retail sales in the state-owned sector grew 17.7 percent and amounted to 4,023 million yuan; retail sales in the collective sector totaled 3.96 billion yuan, an increase of 18.1 percent over 1984. Sales in the individual sector went up by 60.2 percent to total 1,703 million yuan. Sales in other economic sectors rose by 720 percent to 102 million yuan, while retail sales by farmers to nonagricultural residents went up 42.4 percent to reach 921 million yuan.

The major step of pricing reform progressed smoothly, but market prices rose considerably. The general retail price index in 1985 increased 10.6 percent over 1984. Of that, the general retail price level, being influenced by the readjustment and decontrol of commodity retail prices for some farm and sideline products, rose 6.6 percent. The general retail price level, influenced by other factors, also went up by 4 percent. The general retail price index in the cities rose 14.4 percent and 6.7 percent in the countryside. The price of grain rose by 4.4 percent; fresh vegetables, 35.6 percent; meat, poultry, and eggs, 18.2 percent; aquatic products, 42 percent; fruits, 38.7 percent; articles for everyday use, 4.1 percent; books, newspapers, and magazines, 19.3 percent; and fuel, 3.8 percent. Retail prices of garments and cultural and recreational goods increased slightly as well. Prices of farming materials and equipment grew 5.6 percent. The cost of living index for workers and staff went up 14 percent, of which the price index of consumer goods increased by 14.4 percent; the price index of services rose by 10.1 percent, and the general purchasing price index of farm and sideline products increased 16.4 percent on the average over the preceding year.

The market for means of production was brisk. Material supply departments in Fujian increased their procurement by 31.5 percent and sales volume by 30.8 percent over the previous year, including sales of pig iron, 13.6 percent; rolled steel, 14.9 percent; and cement, 5.4 percent. The rate of circulating expenses dropped from 5.2 percent in 1984 to 4.7 percent. The turnover period for circulating funds decreased by 11 days. Coal sales by fuel supply departments in Fujian increased by 3.3 percent.

7. Science, Education, and Culture

Science and technology advanced amid reform, making fresh contributions to economic development in 1985. Popularization of scientific and technological projects yielded improved economic results. The ranks of scientists and technicians also continued to swell. In 1985, 143,500 natural science professionals and technicians were employed in state-owned enterprises in Fujian, 8,700 more than in 1984. There were also 165,400 people working in social sciences, 8,200 more than in the previous year.

Education continued to develop in the course of reform. In 1985, there were 1,064 postgraduates, 28.7 percent more than in 1984, studying in the province; 324 completed graduate school in 1985, a 10-fold increase over 1984. Universities and colleges enrolled 17,900 students in 1985, 5,710

more than in 1984. Graduates from these schools totaled 7,900 in 1985, 292 more than in 1984. They had a total student body of 44,100 last year, 10,100 more than the year before. Adult higher education institutions enrolled 22,800 students last year, 13,100 more than 1984. Total student body increased to 39,600, 15,100 more than the year before. Graduates from these schools totaled 4,500 last year, 2,300 more than 1984.

Restructuring continued in secondary education. In 1985, there were 95 secondary technical schools with a total enrollment of 43,400, increasing by 7,216 as compared with 1984. The number of senior middle school students was 199,000 -- 20,800 more than the previous year. The number of junior middle school students was 900,200 -- 58,700 more than in 1984. Agricultural middle schools and vocational middle schools had 55,200 students, 16,100 more than in 1984. The ratio between the total enrollment of senior middle school level vocational and technical schools and the total enrollment of regular senior middle schools was 33:67.

Primary school education was further popularized and developed. There were 26,600 primary schools in the province in 1985 with a total enrollment of 3,724,000 -- 37,200 more than in 1984. Of school-age children, 97.3 percent attended school in 1985. Kindergartens in the province had 520,300 pupils last year, 30,200 more than the year before.

Cultural units, cinema, and the media played an important role in building socialist spiritual civilization. There were 3,669 film projection units in the province in 1985, increasing by 142 as compared with the year before. There were 104 full-time performing art troupes, 65 public libraries, 78 cultural clubs, 24 museums and memorial halls, 3 radio stations, 36 radio transmitting and relay stations, 3 television stations, and 10 television transmitting and relay stations, each with a capacity of over 1,000 watts. In 1985, the province published 358 million copies of newspapers, up 27.4 percent from 1984; 33,751,000 copies of magazines, up 38.3 percent from 1984; and 156 million copies of books, up 31.1 percent from 1984.

8. Public Health and Sports

Public health work was constantly strengthened in 1985. The number of hospital beds in the province reached 52,000 by the end of the year, an increase of 2.1 percent as compared with the end of the previous year. Professional health workers numbered 74,200, up 3.7 percent as compared with 1984. The total included 27,000 doctors, an increase of 4.2 percent; 17,000 nurses and midwives, up 2.3 percent. Further progress was made in mother and child care and in the prevention and treatment of diseases.

In 1985, Fujian's athletes won 53 gold and 24 silver medals in major international competitions. Six of them won four world championships. Fujian's athletes also won 42 national championships. Three of them broke three national records on nine occasions. Thirty-seven athletes broke 61 provincial records on 64 occasions. In 1985, 780,000 people in the province met the requirements prescribed by the "State Standards for

Physical Culture and Sports Training," 11 athletes won the honor title of state master sportsman, and 22 athletes won the honor title of master sportsman. Mass sports activities were further promoted.

9. Living Standards

Living standards in both the cities and the countryside were improved in 1985. A sample survey of peasant families showed an average annual per-capita net income of 396 yuan (including 353 yuan from productive activities and 43 yuan from cash and acricles remitted or brought back by family members working away from home and relief funds issued by the state), 51 yuan or 14.9 percent more than the previous year. The actual increase in income was 10.6 percent after adjustment for rise in prices. However, our economic development was quite uneven. In some localities with slow economic development, the people's livelihood was still difficult. In some old revolutionary base areas, minority nationally regions, border regions, and poor regions and on some islets, the people's basic needs in food and clothing had not yet been satisfied.

A sample survey of urban households showed an average annual per-capita income of 672.52 yuan for expenses in 1985, an increase of 24.9 percent over 1984. After adjustment for the rise in the cost of living, the actual increase was 9.5 percent.

In 1985, jobs were given to 164,000 people in urban areas. The province had 2,741,100 workers and staff by the end of the year, 113,300 more than at the end of 1984. Self-employed workers in the cities and towns totaled 137,600, an increase of 46,100 over the previous year. Annual wages (Note 4: including subsidies issued to compensate for higher commodity prices) of workers and staff in the province totaled 2,903 million yuan, up 24.1 percent from 1984. The average annual cash wage for workers and staff was 1,100 yuan, 19.4 percent more than 1984. The actual increase in workers' wages stood at 4.8 percent, factoring in the cost of living increase.

Urban and rural savings deposits increased greatly. By the end of 1985, individual bank savings amounted to 4,759 million yuan, 34 percent more than the 1984 year-end figure. Housing for both urban and rural residents improved, and per-capita floor space increased.

Social welfare improved. In 1985, there were 307 social welfare institutes in the province, providing for 5,400 people. Urban and rural collectives provided for 42,400 elderly, disabled, widowed, and orphaned people.

10. Population

In 1985, the province had a population of 27,131,000.

Note: the figures in this communique are based on preliminary annual statistics. They do not include the figures for Jinmen County and Mazu Island of Lianjiang County. The total product of society, total industrial and agricultural output value, and the national income in this communique were computed according to 1985 prices. The increases over the previous year were calculated in terms of comparable prices.

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CSO: 4006/1060

AGGREGATE ECONOMIC DATA

BRIEFS

INCREASE IN PER-CAPITA INCOME--According to BEIJING WANBAO, the urban per-capita national income of our municipality ranked second among the 29 provinces, municipalities, and autonomous regions of the country, next only to Shanghai. This information was released by (Xu Yiliang), director of the municipal Statistical Bureau, at a press conference held today. During the past 5 years, although the population of our municipality increased from 5.104 million in 1980 to 5.725 million in 1985, various aspects of the people's lives showed great improvement. Calculated on the basis of permanent population, the per-capita national income reached 2,040 yuan. In terms of comparable prices, this showed a 47.4-percent increase over 1980, averaging an annual increase of 8.1 percent. In 1985, the average wage of the staff members and workers throughout the municipality was 1,343 yuan. This showed a 34.4-percent increase over 1980, when price subsidies were added, and price rises were considered. The average annual increase was 6.1 percent. Such a high growth rate was rare since the founding of the PRC. [Text] [Beijing City Service in Mandarin 0900 GMT 9 May 86] /12640

CSO: 4006/1060

ECONOMIC MANAGEMENT

WENZHAI BAO EXAMINES EXTERNAL INTERFERENCE IN PRODUCTION

HK010837 Beijing WENZHAI BAO in Chinese No 306, 24 Apr 86 p 2

[Article by WENZHAI BAO Reference Office: "What Can a Factory Do With So Many 'Mothers-in-law'?"]

[Text] A certain brewery invited comrades from as many as 30 other units to attend a meeting to verify the feasibility of expanding its workshop for the production of brand-name wine. Why were so many guests invited? The director of the plant said: "All these units are 'mothers-in-law' of our factory. If any of them is not invited, it will be offended and will play underhand tricks against us. Therefore, we had no alternative but to invite all our 'mothers-in-law' and 'grandmothers-in-law'!"

The plant director continued to say that on the eve of the Spring Festival in 1982, a unit under the City Power Supply Bureau came to ask for 500 bottles of good wine. Since we did not have sufficient good wine to meet the needs of the Spring Festival, we refused to give the wine to this unit. Not long after, the unit informed us by telephone that power supply would be suspended. On the following day, our plant told the unit that we agreed to give it 500 bottles of wine as requested and offered our apology. The result was that we were told "power supply will be ensured." On the eve of the Spring Festival last year, the City Coal Company sent someone to ask for 100 boxes of a brand-name wine which had won gold medals. At that time, we did not have enough of such wine and proposed to replace part of the wine it wanted with other wine. The person from the company snatched back his company's introductory letter and left immediately. Not long after, the Coal Company told us that because of short supplies of coal, no more coal would be supplied to our brewery. I was forced to bring 100 cases of brand-name wine with me to the Coal Company to offer an apology before the problem of coal supply was solved.

Various kinds of "mothers-in-law" have made things very difficult for the brewery. In order to meet market demand, the brewery developed a special kind of wine with 35 percent alcohol in the beginning of 1984. To date, this kind of wine has not yet been put into mass production. This has been caused by the dilatory style of work by "mothers-in-law" concerned. To sell our products, we have to obtain permission from price departments at two levels. After this, we still have to get the approval of the quarantine center. We sent some products to them a month ago but we are still waiting for their reply.

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CSO: 4006/1007

ECONOMIC MANAGEMENT

NEED CITED FOR REGULATIONS ON ENTERPRISE BANKRUPTCIES

Beijing BAN YUE TAN in Chinese No 5, 86 pp 40-42

[Article by Cao Siyuan [2580 1835 3293]: "There Is a Need for Legal Provisions for Enterprise Bankruptcies"]

[Text] In recent years, we have done considerable work in reforms to enliven enterprises. But so far there has been no effective solution for the problem of unprofitable enterprises going bankrupt.

In one investigation it was found that from 1967 to 1976 a chemical plant with fixed assets of only 10 million yuan had incurred continuous losses to a total of 9.6 million yuan. Since there were no means to impose any restraints, losses increased without letup. In 1977 the losses for the year surpassed the 2 million yuan mark, and in 1982 further increased to 3.67 million yuan, bringing the accumulated total losses of the factory up to 25.8 million yuan, or 2.5 fold more than the fixed assets of the entire plant.

According to reason, this plant had long ago lost all its original capital and was in fact bankrupt, but it continued to exist and as before to run up losses, doubling and redoubling its losses. The main reason for this situation is that our economic management system provides such enterprises with "reassurances." Regardless how chaotic its management, how backward its technology, how obsolete its products, or how poor its economic results, the enterprise seems "endowed by Heaven" with the right to exist; it is immortal because it can always depend on financial subsidies. Some people erroneously believe that this is a display of the superiority of socialism.

As long as we do not have the institution of bankruptcy, enterprises that operate at loss over long periods of time on the one hand occupy or waste the fruits of labor of their creditors without remuneration, do not service debts, and make it a common practice to repudiate debts, throwing the entire socioeconomic order into chaos. On the other hand, the financial subsidies provided for such unprofitable enterprises not only saddle the state with a heavy burden and impede the development of production and the implementation of measures to improve the livelihood of the people, but also, more seriously, foster a mentality among debtors that all responsibility can be shifted to the state, a mentality that hampers efforts to stimulate a sense of responsibility and urgency among enterprises to improve their business management and leads

to increased inertia and resistance in the entire business machinery, thereby decreasing economic results throughout society as a whole. Administrative measures are unable to revive the vitality of such enterprises whose continuous losses have brought them to a state of bankruptcy. Here, help can only come from legal measures, i.e., the legislation of an enterprise bankruptcy law, and instituting bankruptcy procedures, to eliminate backward enterprises and encourage progress as the goal in all enterprises.

Instituting bankruptcy procedures means discharging debts while in the state of bankruptcy. Being bankrupt means that the debtor cannot satisfy debts to a creditor on a due date. In the case of an electrical equipment plant, for instance, losses were incurred year after year due to chaotic management conditions. By 1985 its debts to 247 units amounted to 500,000 yuan, while all its property had a value of only 300,000 yuan; it was obviously unable to repay the entire debt of 500,000 yuan. According to an enterprise bankruptcy law, this enterprise should have been declared bankrupt, its property liquidated and used to pay its debts, and it should have been granted a discharge according to law for all debts for which assets would have been found insufficient.

By paying debts in a bankruptcy procedure the debtor on the one hand fulfills all his obligations to the best of his ability, and thereafter is granted a discharge of all previous debts. On the other hand, the procedure protects the legitimate interests of the creditors, ensuring within the limits of what is possible the fulfillment of all obligations and preventing the creditors from getting nothing at all. It may be said that implementation of a bankruptcy law enables the direct disposition of a small number of cases of enterprise bankruptcies, and indirectly embodies the universal principle that debts must be repaid, and therefore serves to protect the interests of the broad masses of the people.

Some say, isn't it a fact that there is no further life for the enterprise after bankruptcy? Precisely. This is what is called "elimination." In commodity production, the objective law of value determines: whatever is low in production costs and suits the requirements of the market will yield larger profits and experience greater development; whatever is high in production costs and unsuitable for the requirements of the market will, quite naturally, yield little profit or even lead to losses. The losses will frequently come to constitute an abnormal indebtedness, and when the indebtedness exceeds the ability to repay, the enterprise will have to be closed down and declared bankrupt. The bankruptcy and elimination of producers of backward commodities is the natural result of the development of commodity production, as it is also the necessary factor that will spur on the development of commodity production at a high rate of efficiency. When a bankruptcy law is implemented and backward enterprises have to close down and be declared bankrupt, it is like a silent warning bell and a silent command which calls on the large number of enterprises to actively and vigorously improve business operations and update technology, and by so doing promote the enhancement of economic results and science and technology levels throughout the society as a whole.

If a bankruptcy law is in effect and an enterprise should fall into bankruptcy, the bankruptcy case would be handled by the law court. The

management, liquidation and distribution of assets in the bankruptcy procedure will be carried out according to a certain procedure in an orderly way; it will be "dying a good death," and will forestall endless bickering by creditors demanding payment of debts.

When an enterprise goes bankrupt, its assets will be liquidated and distributed among its creditors, while its employees (including cadres) become "job-waiting" personnel. How are their livelihood and career problems to be solved? This is something for priority consideration in a socialist country when drawing up a bankruptcy law. The institution of bankruptcy is closely linked with the question of bankruptcy relief measures. The state will in future have to make clear and definite provisions regarding the accumulation, management and distribution of a bankruptcy relief fund and regarding ways to reemploy staff and workers.

Perhaps some may argue that since this is so, it may suffice to merely dismiss the factory director when his enterprise goes bankrupt. Yet the common worker is also punished. Isn't this being unfair?

Actually, if one would only acquire a true concept of the commodity economy, this problem is not at all difficult to understand. An enterprise as a producer of commodities is the embodiment of the common fate of all its members. An enterprise operating under the conditions of commodity economy is like a ship on the high seas. When it strikes a rock and sinks, even if due to a serious fault of the captain, it will certainly not only be the captain who goes down. We see the same reasoning in the objective law that prevails in the development of the commodity economy. Violating this law will deprive everyone of production enthusiasm. Observance of the said law will have everybody show concern in all operations for the fate of the enterprise because everyone's own vital interests are at stake. China is a socialist state with a constitution that sets forth that the masses are not only workers, but also masters of their enterprises. Hence, there ought to be an even closer bond between workers and enterprise. It is only that the economic system of everybody eating from the same big pot prevents bringing the advantages of the socialist system into full play and suppresses enthusiasm for democratic management of enterprises by workers. Practice has proven that the spirit of being masters can only be built on the foundation of real responsibility, power and interests. If a certain economic loss in connection with the losses and bankruptcy of the enterprise would also have to be borne by the entire body of employees, they are bound to be concerned about the business affairs of the enterprise.

The survival of the fittest enterprises is like metabolism in all things on earth; it is normal and beneficial, and also unavoidable. But, one sided propaganda over a long period of time has created the erroneous concept that bankruptcy of enterprises will result in social turmoil. Dominated by this erroneous concept, a considerable amount of the state's and the people's valuable capital has been squandered year after year as "blood transfusions" to certain enterprises without the slightest vitality, protecting backward enterprises from elimination, and running enterprises as if they were relief or charitable organizations. Practice has proven that this served only to

cover up unstable elements, to accumulate such elements and to multiply economic losses. If we are now intent on instituting a bankruptcy system, it is to declare those bankrupt enterprises legally bankrupt. At the same time relief should be provided according to a certain procedure for all unemployed staff and workers who deserve to receive relief. Providing relief is a different matter from running an enterprise. It is only in this manner that consideration could be given to both social stability and economic results.

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CSO: 4006/924

ECONOMIC MANAGEMENT

GUANGDONG GOVERNOR URGES INVIGORATING ENTERPRISES

HK280304 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 27 Apr 86

[Text] At a provincial urban economic structural reform work conference that ended today, provincial Governor Ye Xuanping said that invigorating enterprises is the foundation of economic structural reform. We must make great efforts to invigorate enterprises so as to develop horizontal economic ties.

The governor said that the main role in horizontal economic ties is enterprises. So long as enterprises have their own decisionmaking power and more vitality, they will combine with others of their own accord on the basis of equality and mutual benefit. Economic management departments at all levels, as government organs, cannot take care of everything concerning combinations between enterprises, nor can they enforce enterprises to combine or use administrative means to interfere with combinations. They must act as good go-betweens, provide information, and act as a bridge in combinations of enterprises.

On how to invigorate enterprises, Governor Ye Xuanping said that on the one hand we must give more decisionmaking power to enterprises, delegate power to enterprises, and create conditions externally to invigorate enterprises; on the other hand, we must further implement various reform policies within enterprises and strengthen business management. For example, we may promote the factory manager responsibility system and perfect various economic responsibility systems to invigorate enterprises and raise economic results.

The governor also emphatically pointed out that at present the province should focus on developing horizontal economic ties, on encouraging enterprises to develop the energy, communications, and raw material industries, and on encouraging them to make joint efforts to develop products for export and foreign exchange and products in short supply in the country.

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CSO: 4006/1007

ECONOMIC MANAGEMENT

HEILONGJIANG HOLDS CONFERENCE ON INDUSTRIAL PRODUCTION

SK041400 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 2 May 86

[Text] The provincial CPC Committee and government held a telephone conference this morning. Hou Jie, governor of the provincial government, presented a plan for grasping the current industrial production at the conference.

The conference held: Our province's industrial growth rate, economic results, and revenue in the first 4 months of this year were not ideal enough. From now on, leaders at all levels throughout the province should shift their attention to industrial production, conscientiously strengthen their organizational leadership over industrial production, and improve and implement the economic contracted responsibility system in order to further vitalize production and management and to facilitate industrial production.

The conference held: There were many reasons or causes for the declines in our province's industrial growth rate and economic results. However, the main reasons were that leaders and economic administrative departments at all levels failed to do their work well; that is, they failed to exercise organizational leadership over industrial production, to carry out the economic responsibility system, or to firmly grasp ideological and political work.

The conference set forth: We should conscientiously enhance the organizational leadership over industrial production in order to solve the problems existing in industrial production. Leaders at all levels should shift their attention to industrial production. The leading bodies of all cities, prefectures, counties, provincial-level industrial and communications departments and bureaus, and companies should immediately and conscientiously study the problems in the current industrial production, analyze the current situation of industrial production, correctly find out where the problems lie, and take countermeasures to firmly solve the problems in order to ensure the fulfillment of the annual targets for increasing output value and economic results.

The conference called on cadres of economic administrative departments to go to the grassroots enterprises to help them study and solve the problems in the current industrial production. Cadres of economic administrative departments should implement the regulations of the provincial CPC Committee and the provincial government on drawing a clear line of demarcation between the unhealthy practices and the formal economic activities of the state, collective, and

individual enterprises, and help enterprises study and work out measures for enhancing ideological and political work. In response to the decision of the provincial government on reducing excessive meetings, cadres are given more chances to go deep among the grassroots units.

The conference stressed: From now on, we must link the arrangements for all political activities with the guiding ideology of shifting the whole party's stress of work defined at the 3d Plenary Session of the 11th CPC Central Committee. The departments at all levels should focus their work on serving the four modernizations. Straightening out party style and popularizing education on general knowledge of the law is aimed at the realization of the four modernizations. Thus, we must combine the arrangements for these activities with the thinking regarding how to achieve the current production.

The conference also called on all localities to improve and implement the economic contracted responsibility system in order to enliven the production and management of the enterprises. Through summing up experiences, the enterprises should maintain the advantages and discard the disadvantages to make all effective forms, content, and measures of the contract systems be mutually reinforcing. Acting on behalf of the governments, the management departments at all levels should sign economic contracts with the enterprises in order to assign contracted economic targets to the enterprises as soon as possible.

The conference also set forth suggestions on improving the quality of products, reducing the costs of materials, grasping the sales of products, upgrading economic results, and enthusiastically conducting ideological and political work.

The telephone conference was presided over by Chen Yunlin, deputy secretary of the provincial CPC Committee.

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CSO: 4006/1007

ECONOMIC MANAGEMENT

GUIZHOU PLANNING, FINANCE CHIEFS DELIVER REPORTS

HK010125 Guiyang Guizhou Provincial Service in Mandarin 1400 GMT 30 Apr 86

[Excerpts] (Zhou Banghua), director of the provincial Planning Commission, reported to the Fourth Session of the Sixth Provincial People's Congress on the draft economic and social development plan for the province in 1986.

He said: According to the arrangements in the draft plan, total industrial and agricultural output value this year should be 16.2 billion yuan, an increase of 10.7 percent over last year in terms of 1980 prices. Gross domestic product should be 14 billion yuan, an increase of 12.4 percent. National income should be 12 billion yuan, a rise of 11.3 percent. He put forward the following demands:

1. Continue to put agricultural development in an important strategic position and do everything possible to reap bumper harvests. It is necessary to suitably stabilize the sown area of grain crops, keep under control the sown area of industrial crops such as tobacco, and focus on improving yields and quality. We should strive for new breakthroughs in the township enterprises. Townships and villages that have not yet set up enterprises should develop them as quickly as possible. The enterprises already developed should be consolidated and improved. We must appropriately increase input in agriculture and also take effective steps to improve the work of supporting poor areas.
2. Strive to increase output of consumer goods that sell well in the markets. We must also vigorously tap potentials and develop energy, the raw materials industry, and communications and transport.
3. Keep investment in fixed assets under control, rationally readjust the investment structure, and improve the economic results of investment. In accordance with the state's demands, we should strive to base our work on the overall situation and switch our main efforts to tapping potentials, carrying out technological transformation, and improving enterprise management and technical standards.
4. Work hard to earn more foreign exchange from exports and keep under control foreign exchange spending on imports. We must further promote external economic and technical cooperation and exchange.

5. Make proper arrangements for supplying the markets, keep prices basically stable, and continue to improve living standards.

6. Further develop education, science, culture, public health, and sports. We must also strengthen leadership over planned parenthood work and ensure that the natural population growth rate does not exceed 10 per 1,000.

Provincial Finance Department Director (Long Xingyang) said in his report: The province's local budgeted revenue for 1986 is 1.65 billion yuan, an increase of 205 million yuan--13.8 percent--over the final revenue accounts for 1985. The planned expenditure for the year is 2.65 billion yuan.

(Long Xingyang) said: The arrangement for revenue is a positive one, but that for expenditure is rather tight. The contradiction between needs and possibilities is rather conspicuous. In order to fulfill the financial task for 1986, we must make active efforts to arrange things with care and caution.

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CSO: 4006/1007

ECONOMIC MANAGEMENT

SICHUAN RIBAO URGES DEVELOPMENT OF LIGHT INDUSTRY

HK221555 Chengdu SICHUAN RIBAO in Chinese 7 Apr 86 p 2

[Commentator's article: "It Is Necessary To Maintain an Appropriate Growth Rate in Light Industry"]

[Text] The situation in our province's light industrial production in the first few months of this year was not good. In the first 2 months, both the output value and the tax-profit contributions of light industry declined as compared with the same period of last year, and production costs increased. Although production increased in March, the total output of the first quarter was still less than the same period of last year. This downward trend in industry did not appear in the previous few years. An important reason for this was that the personnel concerned did not realize the necessity of maintaining an appropriate growth rate in light industrial production and did not effectively direct production as they relaxed their efforts.

At any time, we must not neglect the importance of the growth rate. Practice shows that we cannot seek a high growth rate without guaranteeing good economic results, nor can we give up the efforts to maintain an appropriate growth rate, because this will affect the economic results and state revenue. Moreover, light industrial goods are sensitive goods on markets, because they have close relations with people's livelihood. Once they are in short supply, the people will immediately feel the effects of the shortage and market prosperity and social stability will be affected. As we know, urban and rural residents in our province have markedly increased their incomes, and their purchasing power in 1986 is certainly greater than in 1985. This state of affairs sets a higher demand on our light industrial departments, which are required to supply sufficient quantities of light industrial goods of good quality. Therefore, we must maintain an appropriate growth rate in our light industrial production and must try by every possible means to fulfill the target that the provincial authorities assigned to the light industrial departments. It is only necessary but also possible to do so, because the central and provincial authorities have once again reiterated that priority will be given to light industry and the funds, raw materials, and energy needed in light industrial production will be guaranteed. Meanwhile, the quality of our present light industrial goods is still not good enough, the consumption of raw materials in light industrial production is still rather high, and waste remains serious. If we seriously strengthen enterprise management by adopting some modern methods

and effectively solve the above problems, we will tap great potential in our production. In addition, we completed a number of construction and transformation projects last year. They now form the new productive capacity that we can employ. This is also a favorable factor. However, we must point out here that when maintaining a certain growth rate in production, we must also pay attention to improving product quality, enriching the variety of products, developing new products of better quality, and increasing the production of marketable and original products, and we must not shift to produce goods of inferior quality and of limited variety which are not needed or favored by the consumers.

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ECONOMIC MANAGEMENT

QINGHAI GOVERNOR ON ENTERPRISE PROBLEMS, LIVING STANDARDS

HK270239 Xining Qinghai Provincial Service in Mandarin 2330 GMT 26 Apr 86

[Text] In his report on the Seventh 5-Year Plan, Governor Song Ruixiang stressed: We have formulated a number of policies and regulations in the course of invigorating the enterprises in recent years, and the enterprises have been invigorated to a certain extent. However, there are three outstanding problems that have not been solved well:

1. Some regulations on expanding enterprise decisionmaking powers have not been sufficiently implemented. The old setup of separation between departments and regions and closed-style operations has not been completely dismantled.
2. The enterprises lack a concept of market and competition. As a result, the phenomenon of everybody eating out of the same big state pot has not been completely eliminated.
3. The enterprises' mentality of striving to be large and complete or small and complete and not seeking help from anybody outside has not been completely eliminated.

To solve these problems, we must continue to implement the regulations on streamlining the administration and delegating powers, and truly delegate to the enterprises the powers that should be delegated.

Governor Song Ruixiang said in his report: We must correctly handle the relationship between production and construction on the one hand and improving living standards on the other. We must not one-sidedly stress production and construction and neglect living standards, nor can we improve people's living standards and pay and conditions to a degree in excess of production development. Consumption growth cannot be higher than production growth during the Seventh 5-Year Plan. In principle, the growth of workers' wages cannot exceed the growth of labor productivity. This principle must also be followed when considering and arranging the necessary specially favorable treatment in Qinghai. We must clearly understand that this issue is related to the long-term overall situation of the province's economic development.

We must continue to carry forward the fine tradition of arduous struggle and building the country with diligence and thrift. We must seriously implement the socialist principle of distribution according to labor, mobilize people's enthusiasm, and eliminate egalitarianism. We should allow some people to get rich through legitimate labor, and thus attain the goal of prosperity for all.

ECONOMIC MANAGEMENT

SHANXI MEASURES TO CONVERT DEFICITS TO PROFITS

HK260311 Taiyuan SHANXI RIBAO in Chinese 14 Apr 86 p 1

[Report by Wang Xiuse [3769 4423 2773] and Wang Zhongxin [3769 0022 0207]:
"Provincial Economic Commission and Financial Department Formulate Six
Measures To Encourage Enterprises To Turn Deficits Into Profits"]

[Text] Following the principle of "bring more pressure, stressing policies and providing opportunities," the provincial Economic Commission and provincial Financial Department recently formulated six measures encouraging enterprises to turn deficits into profits.

Last year, the province's number of loss-incurred enterprises sharply increased. The trend continues this year. By the end of February, the number of state-run loss-incurred industrial enterprises in localities totaled 186, an increase of 55 compared to that by the end of 1985. The amount of deficits totaled 8.78 million yuan. In terms of trades, the number of loss-incurred enterprises increased in the chemical industry, machine-building industry, building material industry, light industry, and so on. In terms of places, the amount of deficits increased in Yangquan, Jincheng, Yanbei, Luliang, and other prefectures and cities. Therefore, the provincial Economic Commission and provincial Financial Department pointed out: First, we should establish at various levels the system of contracted responsibilities of turning deficits into profits, as well as the economic responsibility system in the loss-incurred enterprises and departments in charge of the work. If an enterprise fails to act in accordance with the planned progress of turning deficits into profits, the responsible departments at the upper level should deduct proportionally and month by month the wages based on professional titles, floating wages, and even the basic wages of the principal responsible worker. On principle, the proportion of deduction of basic wages should not exceed 20 percent. We should remove from office those responsible people who are incompetent in implementing measures of turning deficits into profits, or who cannot accomplish the work within the specified time but allow the deficits to increase without any particular reason. We should arrange ordinary work for them, instead of appointing them to administrative posts. Second, we should grasp the major loss-incurred enterprises, and strictly control enterprises that face new deficits. The provincial Economic Commission and provincial Financial Department should announce in every quarter the names of major enterprises with deficits over 20,000 yuan. Third, we should help major loss-incurred

enterprises strengthen management, improve product quality, and cut back consumption. The economic commissions, financial departments, banks, and other departments at various levels must continue to offer consultation services to loss-incurred enterprises. They should help the enterprises analyze their economic activities and strengthen their economic accounting. Fourth, we should expedite the pace of technological transformation of loss-incurred enterprises. The provincial, prefectural, and county authorities must allocate a certain amount of funds for technological transformation. Financial departments at various levels must use part of their funds as small loans for technological transformation. Based on the method of checking and ratifying the budget deficits of loss-incurred enterprises of that year, we can continue to grant them loans ahead of schedule. Thus, we can concentrate the financial resources, as well as support and expedite the pace of technological transformation of enterprises, so as to promptly achieve the goal of turning deficits into profits. Fifth, we should be determined in closing or merging some of the enterprises, or stopping or changing their production, as the case may be. Sixth, financial, tax, auditing departments, banks, and other departments must strengthen their economic supervision over loss-incurred enterprises.

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CSO: 4006/1007

19 June 1986

ECONOMIC MANAGEMENT

SICHUAN PLANNING, FINANCE CHIEFS REPORT TO PEOPLE'S CONGRESS

HK010533 Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 1 May 86

[Excerpts] Pu Haiqing, vice governor and director of the provincial Planning and Economic Commission, delivered a report to the provincial People's Congress session on 28 April on the execution of the provincial plan for 1985 and on arrangements for the 1986 plan.

He said: To ensure the fulfillment and overfulfillment of this year's plan, the province should focus on the following eight aspects of work in social and economic development: 1) Continue to get a good grasp of agricultural production and strive for overfulfillment of the planned grain target. 2) Step up ideological and political work for staff and workers to ensure the fulfillment of this year's industrial production targets. 3) Carefully organize the production and allocation of electric power, to ensure supplies for industrial and agricultural production. 4) Vigorously develop urban and rural collective enterprises. Particular attention must be paid to developing collective industry. 5) The functional role of the banking departments must be brought into full play. The work of raising and channeling capital must be grasped well, and the contradiction of extreme shortage of capital should be eased. 6) Further develop lateral economic ties and cooperation based on the principle of mutual interest and benefit and common development. 7) Strengthen controls over investment in fixed assets and continue to control the size of such investment. 8) Seriously implement the principle of consolidation, digestion, replenishment, and improvement, and continue to carry out all-round economic structural reform focused on the cities.

The province scored notable success in economic and social development in 1985. There was a relatively big increase in revenue and expenditure. The budget was balanced with a slight surplus. This was stated by provincial Finance Department Director (Duan Bingren) on 28 April in his report to the provincial People's Congress session on the final accounts for 1985 and the budget for 1986.

Total revenue last year was 8,410,150,000 yuan. After deducting 6,423,210,000 yuan in expenditures and certain other expenses, the province had a total surplus of 555.72 million yuan. Both the budgeted revenue and expenditure for this year are 6,716,570,000 yuan.

(Duan Bingren) said: The task of achieving this year's budget is very arduous. We must therefore strive to do the following tasks well: Further reform the financial setup; bring into full play the lever role of taxation in regulating the economy; do a good job in supporting poor areas; vigorously organize revenue; economize all capital expenditures; carry out a major inspection of taxation and finances; and strive to fulfill the task of subscribing for state bonds.

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ECONOMIC MANAGEMENT

TIANJIN VICE MAYOR SPEAKS ON INDUSTRIAL PRODUCTION

SK030144 Tianjin TIANJIN RIBAO in Chinese 20 Apr 86 p 1

[Text] On the afternoon of 19 April, Vice Mayor Nie Bichu spoke on the current industrial production at the sixth plenary meeting of the municipal government. He urged the whole municipality, from the higher levels down to lower levels, to seize the golden opportunity of the second quarter for industrial production, heighten the spirit, overcome difficulties, actively make progress, and guarantee a rational growth rate of our municipality's industrial production on the premise of improved economic results.

After analyzing the current situation in industrial production, Nie Bichu pointed out: We should successfully carry out the industrial production in the second quarter in the spirit of "going all out to catch up." In the course of arranging production, we should not only note the unfavorable factors but also favorable conditions and the increasing favorable factors. We are gradually adapting ourselves to the new situations and new problems arising in exercising macroeconomic control. Major difficulties in the supply of funds, foreign exchange, energy and raw materials, which existed earlier this year, have largely been alleviated thanks to the efforts of various fields. The production of a group of goods in short supply has been increased, and a group of new construction and expansion projects will go into operation and yield benefits. In particular, the masses are in a basically stable mood and their minds are at ease. It is totally justifiable for us to carry out industrial production more successfully.

How should we grasp well the current industrial production? Nie Bichu pointed out: First, we should overcome difficulties, actively make progress, and maintain and develop the good trend of sustained growth in our municipality's industrial production. The objective difficulties facing the current industrial production are a normal situation universally existing in the course of macroeconomic control, not an isolated phenomenon existing only for a short period of time. Leading cadres at all levels should have a correct understanding of and mental preparation for this, maintain a good mental attitude and a high morale for making progress through exploration, make a specific analysis of these difficulties, have a good idea of them, mobilize and organize the masses to conquer them, and promote the production of the second quarter and the whole year in a down-to-earth manner. Second, we should further improve and change our workstyles, and continue to strengthen the organization and management of production. Leading cadres at all levels should go into the

realities of life and to worksites, and directly solve specific problems in production that may arise at any time. While strengthening the organization and management of production, we should intensify the analysis of the economic trends, clarify the subjective factors affecting production, and accurately spot problems. All departments and units assigned to solve specific problems should make clear their responsibilities and duties, pay attention to actual results, and refrain from buck-passing, procrastination, and loss of opportunities. Third, we should give different guidance according to different cases, guarantee the key areas, and use our limited financial and material resources where they are most needed. We should mobilize and organize the forces from various quarters, and try all possible means--from the supply of electricity, funds, foreign exchange, and materials, ideological and political work, the deployment of cadres, and the improved responsibility system to various coordinated economic policies--to guarantee the production of goods in short supply and of the key enterprises which produce export products, create large amounts of profits and taxes, and affect the overall economic situation. In this way, the main part of our municipality's industrial production can be stabilized. In the meantime, key enterprises should all the more give play to their role of subjective initiative and never foster an idea of relying on others. Fourth, we should have good organization for the operation of completed projects, step up the production of the projects already put into operation, and make them yield economic returns as soon as possible. In the future, we should be strict when testing and approving construction projects, and never approve and cut the ribbon for any project which fails to yield the designed benefit because of construction problems. Technical transformation projects should reach the designed capacity within 2 years after they are put into operation. Fifth, we should improve and strengthen management. We should expedite the readjustment of product mix, greatly increase the production of the goods urgently demanded in markets, stabilize and upgrade product quality, reduce consumption, and exert great efforts to sell products and collect loans. Sixth, we should strengthen ideological and political work and conscientiously implement the responsibility system. At present, enterprises should use well the various encouraging policies granted by the state and the municipality, assign targets to every subordinate unit, make it responsible for the assigned targets, strictly examine the results, and ensure that industrious units are awarded and lazy ones are punished. We should particularly do a good job in ideological and political work and truly establish the economic responsibility system on the basis of the high awareness of staff members and workers. Seventh, we should show concern for the lives of staff members and workers, and do a good job in production safety. Leading cadres at all levels should try their best to successfully carry out the welfare related to the lives of staff members and workers. In the distribution of the public benefit of enterprises, leading cadres should be examples, and refrain from competing with the masses for more benefit. All units should improve security organizations and preventive measures.

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CSO: 4006/1007

ECONOMIC MANAGEMENT

REGULATIONS ON FIXING PRICES ACCORDING TO QUALITY

Beijing JIAGE LILUN YU SHIXIAN [PRICE: THEORY AND PRACTICE] in
Chinese No 6, 20 Nov 85 pp 29-30

[An Outline by Ling Bin [0407 1755]: "Brief Introduction to Regulations on Fixing Prices According to Quality as Issued by the Various Departments of the State Council for the Period January to July 1985"]

[Text] Items of the Machine-Building Industry

The following are the results reported by the Ministry of Machine-Building Industry on 23 January 1985 of a reexamination of the quality of 842 products, which prior to 1983 had been appraised as "nationally excellent" and as "departmentally excellent:" (1) Items found up to standards totaled 625, or 74.2 percent of the total number of all such items. During the period of validity of their "excellent quality" designation, these products must use "excellent quality" markings, so that users may exercise supervision of their quality and to qualify for "excellent quality" and preferential pricing privileges prescribed in relevant documents. (2) Twenty-three products, i.e. 2.7 percent, were not up to relevant international standards or current standards and were disqualified as "excellent quality" products. (3) Twenty-three items, i.e. 2.7 percent, were outmoded products or products produced in small quantities, for which the factories on their own initiative proposed cancellation of the "excellent quality" designation and items which had not yet attained international standards, which, therefore, had to be taken off the list of "excellent quality" products. (4) Forty-five items were officially declared disqualified as "excellent quality" products and were found in need of updating and upgrading, 52 items were not accepted as up to relevant international standards, 10 items were one-time products, and for 41 items the period of validity had expired, making altogether 148 items in this category, or 17.6 percent, of all products under reexamination. (5) Twenty-three products, i.e. 2.7 percent, were still being examined.

Method of Appraising State-Designated Excellent Products

On 8 February 1985, the State Council approved and circulated "Some Provisional Regulations on Enhancing Technological Progress," drawn up by the State Economic Commission. The following is the gist of these regulations as far as they concern the appraisal of products as being state-designated

"excellent quality:" (1) The original system of having state-designated "excellent quality" products appraised as such by the State Commission for Quality Awards has now been changed to a system of having the said commission allocate certain numbers of items to be controlled by the various departments, trades and industries, whose quality award committees shall report their appraisal to the State Quality Award Commission for final approval. International standards must be applied in the case of state-designated excellent quality products (except in cases of uniquely Chinese characteristics). The organ authorized by the State Economic Commission to carry out these quality appraisals must establish on examination that the product in question is up to the advanced national level of the last 3 to 5 years. (2) State-designated excellent quality products should be selected from among products that have a major impact on the national economy. Ordinary products should be merely appraised as departmentally excellent quality products. (3) The appraisal and selection of state-designated excellent quality products shall gradually become a regular and scientifically performed practice. It is necessary to strengthen and build up as rapidly as possible a product quality appraisal center at the state level for the appraisal of important products, and to gradually establish a set of scientific sampling, testing, evaluation and appraisal procedures. (4) The supervision and control of state-designated excellent quality products must be improved. If quality declines, prompt measures must be taken to ensure improvement of product quality within a certain time limit, and, if necessary, the state-designation of excellent quality product shall be cancelled for the product in question, and notice of its adverse evaluation shall be circulated.

Grain

The "Plan for the Adjustment of Policy and Prices Governing the Procurement and Sale of Grain and Edible Oil in the Rural Areas," issued by the State Council on 13 March 1985, prescribes that, for the purpose of implementing the principle of higher prices for high quality and lower prices for low quality, all provinces, autonomous regions and directly administered municipalities may, figuring on the 1985 fixed purchasing quota quantities for the three large categories of commodities, and on the premise of not overstepping the general level of the "inverted 3 to 7" price ratio, appropriately raise the price ratio for easily saleable high-quality products and reduce the price ratio for low quality or sluggishly selling products. However, the price of nonglutinous rice must be controlled so as not to exceed the "inverted 2 to 8" proportion, with the wheat of North China not to exceed the "inverted 3 to 7" proportion, while the wheat of South China and the corn in the main producing areas may be allowed to appropriately fluctuate downward, attention being paid to dovetail all prices with those of neighboring areas. Well known high-class rice may be freed from controls, and its pricing left to market regulation. Seed grain produced by farms (households) specializing in the production of high-quality seed grain are not to be included in the system of fixed quotas of contractual purchases, but may be traded by the seed grain departments in charge, and may also be freely bought and sold. Because the principle of higher prices for high quality is to be observed when purchasing grain under fixed quotas, the system of advance mortgaging of certain well known high-class grain types for future procurement is not to be employed.

Coal

In the "Report on the Plan to Broaden the Regional Price Differences of Coal Under Unified Distribution and to Adjust Price Ratios Between Different Types of Coal," drawn up by the State Commodity Price Bureau and the Ministry of Coal Industry, approved and circulated by the State Council on 15 March 1985, it was decided to adjust the price ratios for different types of coal under unified distribution, including adjustments in the price ratios between 17 types of coal, such as coal concentrate, lump and slack coal, as well as the adjustment in the price parities between coking coal, fat coal, lean coal and brown coal. (1) The ratio of washed coal to raw coal was raised from the current 156 to 165 percent. (2) The present price for dressed coal, being 2 percent lower than for raw coal, is very unreasonable. The price for dressed coal will be raised to 5 to 10 percent in relation to raw coal. (3) Coking coal and fat coal are the main types of coal used in China's industry, but resources are limited, and the price ratio of coking coal and fat coal to ordinary coal for motive purposes will be adjusted from 110 to 120 percent. (4) The calorific capacity of lean coal is higher than that of long flaming bituminous coal, but its price is 15 percent lower than the price for long flaming bituminous coal, which is very unreasonable. In future the price parity will be raised from 85 to 95 percent. (5) The price originally fixed for brown coal is excessively low; its price parity will in future be raised from 80 percent to 83 percent.

Urban Public Transportation

In the "Report on the Improvement of Urban Public Transportation" of the Ministry of Urban and Rural Construction and Environmental Protection, approved and circulated by the State Council on 19 April 1985, it is pointed out that newly opened routes over urban main thoroughfares and routes serving mainly tourist traffic shall be equipped with high-quality cars. The principle of higher prices for high-grade service shall be applied, and no monthly tickets shall be sold.

Medical and Public Health Services

In the "Report on Certain Policy Questions Concerning Reforms in Public Health Work" by the Ministry of Public Health, approved and circulated by the State Council on 25 April 1985, it is pointed out that gradual reforms are to be effected in the current irrational system of charges. Presently, it may still prove difficult to carry out a universal adjustment of medical fee standards, and no large-scale adjustments will be carried out in 1985. However, a tariff of charges based on costs may be instituted in certain cases where new instruments and new items of equipment are used and where new medical treatment is given. In the case of newly constructed, renovated or expanded medical units with otherwise favorable conditions, medical fees may be appropriately raised. Sickrooms may be of different classes and charged at different rates. Different tariffs of charges may also be applied in case of special arrangements or at private clinics. In the case of collective or individual medical facilities, medical fees may be more flexible, allowing them a certain margin of profit. The specific items to be adjusted or the extent of adjustments may be determined by the various provinces, autonomous

regions and directly administered municipalities themselves according to local conditions.

Coal Gas

The "Report on the Accelerated Development of the Urban Coal Gas Industry" by the Ministry of Urban and Rural Construction and Environmental Protection, circulated by the State Council on 8 July 1985, points out that it is necessary to employ economic levers to arouse enthusiasm for the undertaking of coal gas development, and to follow the principle of higher prices for better quality. The principle on which coal gas pricing must be based is that the prices must preserve the principal investment and must yield a small amount of profit. Charges for civil use of gas must be slightly higher than expenses for burning coal. Charges for gas used for public welfare purposes shall be higher than the price of gas for private use, and rates for industrial use of gas shall be higher than rates for public welfare use of gas. Where the sources of gas are bought at high price, the gas will have to be sold at high price, but pricing must adhere to the principle that prices must be within the limits which the consumers can accept as bearable. Cities that newly undertake providing coal gas must at the start fix reasonable rates for their gas according to the above-stated principles that are to govern price determination.

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CSO: 4006/873

ECONOMIC MANAGEMENT

BRIEFS

ECONOMIC COOPERATION MEETING HELD--The first joint meeting of the Fujian-Guangdong-Jiangxi border region economic and technological cooperation zone was held at Longyan, Fujian, from 26 to 28 April. Representatives of Longyan in Fujian, Meixian in Guangdong, and Ganzhou in Jiangxi exchanged information on economic development and discussed questions of lateral economic ties between localities and enterprises. Representatives of the three areas and also of the technological consultative services company of the Ministry of Astronautics Industry, who were invited to attend, held extensive talks on technological cooperation projects in railroads, highways, energy, electric power, pottery and porcelain, minerals, grain, technical equipment, and commodity purchase and sales. Letters of intent regarding cooperation in 46 projects were signed. Longyan, Meixian, and Ganzhou constitute the border region of these three provinces. Economic development there has been relatively slow. In January this year, a responsible person of the Meixian Prefectural Commissioner's Office proposed the establishment of the cooperation zone, and this was agreed to by Longyan and Ganzhou prefectures. [Text]
[Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 3 May 86 HK]
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CSO: 4000/1007

FINANCE AND BANKING

PRC OFFICIAL ON REFORM OF CHINA'S FINANCIAL SYSTEM

Hong Kong WEN WEI PO in Chinese 21, 22 Mar 86

[Abridged text of speech given by Zhao Haikuan [6392 3189 1401], director, Financial Research Institute, People's Bank of China, at the colloquium "Reform of China's Economic System" at the Asian Studies Center of the Hong Kong University: "Reform of China's Financial System"]

[21 Mar 86 p 10]

[Text] In the course of the reform of China's economic system, reforms were also actively pursued in the banking system. This writer is one of the participants in this reform. With this article I wish to give some introductory information on this reform and also express some views, which may serve students of the reform as reference.

Since the start of the reform of our economic system, and in line with the demands posed to banking work by the state's unified setup and the reform of the economic system, China's banks have indeed implemented a large amount of reform measures, among which the following are the main aspects:

1. The Initial Establishment of a Banking System With Government Administration Separated From Enterprise Management

Prior to the 3d Plenum of the 11th CPC Central Committee, domestic banking business in China was centralized in the People's Bank of China, which was China's currency issuing bank but which also transacted all ordinary banking business.

Since the start of the reform of China's economic system, the bank became burdened with more and more tasks, which made it necessary to set up several specialized banks and other credit institutions to take on certain sections of banking business. Finally, in the first half of 1979, the State Council decided to revive the Agricultural Bank of China as a specialized bank in charge of banking in the rural areas. In the same year, the State Council approved elevating and expanding the position and scope of business of the Bank of China, and, furthermore, decided that investments in capital constructions were gradually to be changed from fund allocations by the finance administration to bank loans, to be granted and managed by the Bank of

Construction. In 1980 the State Council approved the resumption of domestic insurance business by the People's Insurance Corporation of China, which thus became a company to handle all insurance business. Of particular importance was the State Council's decision of 17 September 1983 to have the People's Bank of China assume the special function of central bank, and the establishment of the Industrial and Commercial Bank to undertake industrial and commercial credit and savings bank operations, which formerly had been tasks of the People's Bank. Later, the state again authorized setting up on a nationwide scale more than 30 trust and investment companies at the provincial level. Thus, what basically had taken shape was a new banking system (perhaps to be called a financial system), composed of the People's Bank of China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the People's Construction Bank of China, the People's Insurance Corporation of China, the rural credit cooperative societies, the local trust and investment companies and other financial institutions.

In the new banking system, the People's Bank of China is central bank, currency issuing bank and the state organ through which the State Council guides and controls the entire nation's financial affairs. The Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the Construction Bank of China, the People's Insurance Corporation of China, the rural credit cooperative societies, and the other financial institutions are financial enterprises to handle certain particular aspects of banking business.

Establishment of the new financial system has created favorable conditions for the invigoration of banking business and for the strengthening of macrofinancial controls. The existence of this plurality of financial institutions helped strengthen guidance of banking business, provided a means of comparison of the quality of business operations among the financial institutions, and by a certain competition between them will increase pressure toward greater business activity and greater efficiency. At the same time, government administration is separated from enterprise management in the new financial system; the People's Bank is a state organ, while all financial institutions are financial enterprises. The People's Bank is, therefore, in a position to concentrate in its work on macroeconomic regulation and on the guidance of all financial work, while the specialized banks are able to employ the methods of enterprise management, to actively pursue various types of banking business, as demanded by the reform of the economic system, and thus to promote the invigoration of the entire economy, on the premise of an effective control of the macroeconomy.

2. Reforming the System of Controlling Credits

In the past, the system of controlling credits in China was highly centralized; deposits received by all banking institutions were centrally held by the head office for distribution and use. For loans, the head office would assign plan quotas, and it was not permissible to switch quotas among different credit requirements. Facts have proven that this system of unified control of deposits and loans, with its excessively meticulous and rigid control by the head office, was not conducive to stimulating enthusiasm among

the basic-level banks for increased efforts to obtain deposits or to do a good job of granting credits.

To overcome these drawbacks in the management of credits, to appropriately expand the self-determination of the basic-level banks and arouse their enthusiasm for increased and more effective credit operations, China, from 1979 on, began to manage credits on the basis of a balance between funds taken in and funds being used.

Although the method of control by such balancing is a certain improvement over the centralization of deposits and loans, since the absorption of more deposits will increase funds available for loans, always on the premise of not exceeding the balance, and will be apt to stimulate the enthusiasm of all specialized banks, it also gave rise to a number of new problems. The differential frequently grew too wide, and while the loan deficiency can still be made up, the central bank was unable to effectively control the scope of lending. To further improve the management of funds and strengthen the macrofinancial control, the central bank, from 1985 on, instituted a new method of credit fund control of the specialized banks. By this method the central bank, when determining the annual loan deficiency of the specialized bank, will at the same time set a limit to its loan of funds to the specialized bank. The branch bank of the central bank will then extend loans to the specialized bank within the limits set by its own bank, in line with financial policy and financial strength. The practice of one year has proven that the new method of controlling credits can indeed effectively control the scope of credits.

In addition to the above-stated reform of the system of controlling credits, efforts to invigorate banking business in recent years included the guided opening up of certain credit activities through market regulation, for instance, opening up commercial credits and trying out commercial credits by way of negotiable instruments. Enterprises were permitted to sell merchandise on credit, to advance loans, and also to try out the use of drafts as documentation of an obligation. The drafts could be discounted by banks.

With the approval of the authority in charge, enterprises can issue shares or bonds to raise funds in the market. In 1985 the Agricultural Bank of China and the Industrial and Commercial Bank of China also issued 1-year-term financial bonds at 10.8 percent annual interest.

The basic-level banks may mutually extend short-term loans to adjust mutual fund surpluses and deficiencies.

The trust and investment companies accept entrustments and transfer funds on behalf of units; they will grant loans or make investments according to the parties and for the purposes designated by the principal and according to the capital put up by him. They will act as agents for the issue of shares and bonds, take property in storage, rent out, or act on behalf of enterprises in renting out advanced equipment.

3. Expanding the Scope of Banks for Granting Loans

In this respect, comparatively important reforms have been made in the following areas:

(1) Fixed asset loans. It had been a long-standing rule in China that banks could grant only circulating capital loans, but not fixed asset loans to industrial and commercial enterprises. The role of banks in the fund operations of enterprises was thus limited to a comparatively small sphere, because as capital is being taken up by Chinese state-run industrial enterprises, over 60 percent is in fixed assets while circulating capital amounts to less than 40 percent. This is very detrimental to our socialist construction. Besides, the said rule lags far behind the world trend in banking business developments. Not only is there no such restriction on the banks of the Western countries, but the system has even been changed in the Soviet Union, which had originally introduced the system to us. They all grant circulating capital loans as well as fixed asset loans. In view of these facts, the People's Bank of China broke with the old restriction and began in 1979 to extend loans to enterprises for technological transformations and capital constructions.

The facts have shown that when the banks grant fixed asset loans, because of their widespread organizations and long-standing contacts with the enterprise in connection with deposit, loan, settlements and other business, the banks will be quite familiar with the history and actual conditions of the enterprises, and will as far as possible select loan projects which will yield good economic results. Loans are granted and repaid, interests are collected, and the banks that grant the loans will also have special staff to handle credit business with the enterprises. These staff will be in contact with the enterprises and in a position to exercise supervision over the loans from beginning to end, making sure that the loans will be used in a rational way. Compared with the allocation of funds by the organs of the financial administration, bank loans are more beneficial in that they ensure that the nation's capital funds are being used effectively to invigorate the economy.

(2) Granting loans to individual entrepreneurs. Following the 3d Plenum of the 11th CPC Central Committee, the individual economy made very rapid progress in China, an individual economy which is linked with the system of socialist public ownership. It played an important role in the development of social production, in improving the people's livelihood and in providing additional employment for our manpower, proving itself to be a necessary supplement to the socialist economy. The banks started granting loans to individual entrepreneurs precisely for the purpose of supporting this economic development. There are now many individual entrepreneurs, spread widely over the whole country. As the risk in loans to them is high, lending procedure must be strict. Granting these loans further enriches the loan operations of the banks and raises the responsibility of the banks in their loan operations.

4. Greater Attention to Interest Rates as Effective Lever

Interest rates constitute an important economic lever and an effective means by which the banks can regulate the national economy. However, prior to the

3d Plenum of the 11th CPC Central Committee, interest rates were little differentiated, rate differences were small and the rates were not changed over long periods of time, so that this economic lever was never truly brought into play. Taking the interest rates for loans to urban enterprises as an example, the same interest rates were applied, regardless of what kind of enterprise was involved and what type of loan was given. The interest rates of banks at that time were indeed nothing but "dead levers."

Since 1979, the banks substantially reformed the interest rate system, first of all raising interest rates by a large measure. The following table shows the changes in the main bank interest rates by a comparison of rates at the end of 1985 and at the beginning of 1979:

Types of Interest	1979 Rates (annual)	1985 Rates (annual)	Increase (\$)
Deposits by urban and rural individuals:			
Current deposits	2.16	2.88	33
1-year fixed "	3.96	7.20	80
3-year fixed "	4.50	8.28	84
5-year fixed "	5.04	9.36	86
8-year fixed "	-	10.44	-
Circulating capital loans	5.04	7.92	57
1-year fixed asset loans	-	9.36	-

As a second step, interest rates were further differentiated, and a policy of differentiated interest rates was instituted. For instance, additional rates were added among the loans to industrial and commercial enterprises, such as interest rates for fixed asset loans, interest rates for overdue accounts, penalty interests for illegally encroaching on or diverting loan funds, floating interest rates, etc.

The reform of the interest system is playing a positive role in increasing the construction funds of the nation and in promoting the improvement of business management in the enterprises.

5. Introduction of Economic Accounting Systems in the Internal Operation of Banks

Prior to the reform, an erroneous "Leftist" ideology had prevailed in China for a long time with the belief that banks are service and supervisory organs of the national economy and need not bother about their internal trivial accounting. The "small" accounts of banks were thought of as something standing in opposition to the "large" account of the national economy, and no serious attention was ever paid to economic accounting in banks. Since the 3d Plenum of the 11th CPC Central Committee, as the reform of the economic system progressed, there has been some improvement of economic accounting in banks,

and starting in the first half of 1979 the "Provisional Regulations Governing Economic Accounting in the People's Bank of China" have been put into effect. These regulations prescribe that all basic-level banks must keep accounts of the utilization rate of credit funds, of work quality, of work efficiency, and of expenses and profits, and it is on the basis of the fulfillment of these norms that they will draw enterprise working funds.

There are, of course, still many problems in the current economic accounting procedure of the banks, problems that await solutions in the theoretical as well as in the practical field. However, it is gratifying that the first step has been taken, thereby laying the foundation for further reforms in the future.

6. Initial Employment of Economic Means To Exercise Macrofinancial Control

After the initial invigoration of the national economy and banking, the People's Bank of China as central bank is now gradually attaching greater importance to the use of economic means for the control of the macroeconomy. It is by increasing or reducing loan quotas to specialized banks, by changes in interest rates and in the deposit reserve fund rate that the bank controls the amount of currency and the scope of loans. In 1984, because of the excessively large capital constructions, consumption funds increased too fast. Furthermore, conditions were not yet sufficiently developed for the exercise of macroeconomic controls by merely economic means, so that controls were ineffective, and the macrofinancial situation got somewhat out of hand. In order to effectively strengthen the macrofinancial control, it still became necessary in 1985 to increase certain administrative means, such as command-style planning in the direct control of the overall amount of lending by the specialized banks, etc., but economic means were also sharing in the improvements and strengthening of controls. For instance, the level and structure of interest rates were adjusted, deposits were scrupulously turned in into the deposit reserve fund, and the earlier mentioned reform of the credit fund management system was carried out. All this has laid an initial foundation for the gradual transition in China to a system of mainly using economic means to effect macrofinancial control.

[22 Mar 86 p 10]

[Text] Progress in the reform of the banking system is determined by progress in the reform of the economic system. In the "Proposal of the CPC Central Committee for the Seventh 5-Year Plan for Development of the National Economy and for Social Development" it is pointed out: "To guarantee the successful realization of the Seventh 5-Year Plan and an even more extended sound and harmonious development of China's national economy, it is most important to act in accordance with the "Resolution" of the 3d Plenum of the 12th CPC Central Committee, namely to move forward, unswervingly as well as carefully and steadily, in our reform of the economic system and to strive to lay the basic foundation for the coming 5 years, or for an even longer period of time, for a socialist economic system with Chinese characteristics, full of vigor and vitality." This is also the principle that is to guide progress in the reform of the banking system. We too must lay the foundation for the accomplishment of the final objective in our banking reform within the above-

mentioned period of time. For this purpose, it will perhaps be necessary in the coming reform of the banking system to take further measures in the following directions, basing on the achievements of the first stage of the reform:

1. Improvement of Our Macrofinancial Control To Rely Mainly on Economic Means

The People's Bank of China, in its capacity of central bank, is one of the most important organizations for macrofinancial control. On the basis of the growth rate of the GNP in the particular year, on the probable extent of commodity price increases and on other similar factors, the bank must compute at the beginning of each year at what rate the currency supply will have to be increased. It must, furthermore, compute, according to the historically normal proportion between currency supply and total amount of loans, to what extent the overall amount of nationwide loans must be increased. And again, it must compute, on the basis of the normal proportion between the total amount of loans and the amount of re loans by the central bank, the amount needed by the central bank for its re loans. These factors, after approval by the State Council, must serve as basis for the macrofinancial control to be exercised by the central bank.

Based on the conditions of economic developments and of the currency circulation in the market, the central bank must control, in the course of the year and within the approved amount of its re loans, the overall amount of loans, and exercise this control by means of adjusting interest rates and the rate of deposits required to be made into the deposit reserve fund, and hence control the total amount of social currency supply and achieve the objective of a macrofinancial control.

The inflexible requirement of loans for such procurements as grain and cotton must be made separate items, for which the head office of the People's Bank is to provide funds. For fixed asset loans and township enterprise loans, the specialized banks must be given special quotas, which must not be exceeded without special approval. As to loans for other purposes, these must be provided by the specialized financial institutions within the limits of their own financial strength. Their ability to make loans will depend on the amount of deposits or loan repayments they take in. The central bank will not limit such loans by loan quotas, nor will it be responsible for loans granted by the specialized financial institutions in excess of what was permitted within the framework of the macrofinancial regulation. The specialized financial institutions must also extricate themselves from responsibility for capital requirements they have assumed for enterprises.

The People's Bank of China must strengthen the development of a legal system dealing with financial matters, establish sound financial rules and regulations, and also laws and regulations on auditing and it must also strengthen auditing work. The business activities of all specialized financial institutions shall be subjected to periodical and irregular audits and investigations, and any irregularities discovered shall be severely dealt with, so as to ensure an effective macrofinancial control.

2. Continuous Opening Up and Invigorating of the Economy; Strengthening the Vitality of Our Financial Undertakings

With respect to these problems, we may consider the following:

In view of the objective demands posed by the reform of our economic system and by the socialist construction, we must further expand the scope of business activities of our banks, increase the variety of business operations and broaden the authority of the basic-level banks. All specialized banks shall effectively handle the business of granting loans to state-run and collective-run enterprises, and at the same time actively conduct deposit, loan and account settlement business for the individual economy. They shall completely include the individual economy in the sphere of banking business activities. Commercial credits shall universally assume documentary forms, and the specialized banks shall deal with the business of discounting bills, while the central bank shall rediscount such bills. Further efforts shall be made to increase saving deposits from urban and rural citizens; saving deposits may be handled by all specialized banks, credit cooperative societies and post offices. As soon as possible an electronic computers network shall be set up, credit cards shall be introduced, and depositors shall be afforded more active services by facilitating their deposits and withdrawals. In the settlement of accounts, payment by checks should be tried out in transactions with individual industrial and commercial entrepreneurs and individual persons. In economically developed areas and areas of tourism traveller's checks shall be introduced on trial. The settlement of accounts of neighboring areas with good communication facilities shall be changed from "out-of-town" to local settlements.

When subjected to the macrofinancial control of the central bank, and on the premise of observing the state's credit policy, all specialized financial institutions shall be authorized to grant loans at their own discretion, while at the same time bearing full responsibility for the risks involved in the loans. Within a certain scope, overlapping of business operations between the various specialized financial institutions shall be permissible. They shall be encouraged to compete with each other in attracting deposits, in the service to their customers and in the improvement of their business management, so as to increase external pressures on them and in the interest of invigorating banking business.

With the approval of the People's Bank, the specialized banks and trust and investment companies may issue debentures to raise funds from among society in general.

Commercial drafts may be discounted, debentures may be traded, financial organizations may extend short-term loans to each other. Under the direction and control of the People's Bank, a variety of financial tools may be used to actively develop horizontal financial accommodation and to promote the gradual formation of a capital market.

Where need exists in large and medium-sized cities, credit cooperative societies may be set up to handle deposit accounts, loans, saving accounts, insurance and money transactions for the urban small-scale collective economy

and for individual entrepreneurs. As required by the developing economy, and with due approval by the head office of the People's Bank, the establishment of further banks may be considered. All financial institutions must submit to the guidance and control of the People's Bank, must observe state policy and according to regulations make payments to the deposit reserve fund at the People's Bank.

3. Instituting Enterprise-Style Management in Specialized Banks; Increasing and Invigorating Internal Drive in the Banking Business

Whether the specialized banks will be able to institute enterprise-style management is a factor that will decide whether banking business can be invigorated and whether macrofinancial control can possibly be achieved. If it is intended to have the specialized banks achieve enterprise-style management, it is again necessary to provide a correct solution for the problem of coordinating the interests of the specialized banks with the overall interests of the state. In order to encourage people to actively open saving accounts, to turn consumption funds into production funds, to increase the amount of construction capital, to retard purchasing power embodied in these amounts of currency, and to effectively regulate the currency circulation in the market, the state has prescribed under the current system comparatively high interest rates for long-term fixed deposits. From the viewpoint of the overall interests of the state, this is absolutely necessary, but this causes an upside-down situation in the interest rates, which is a detrimental factor in the economic accounts of the specialized banks. The current interest rates for fixed deposits for 3 or more years are higher than interest rates for circulating capital loans, and specialized banks that would take in these long-term deposits would lose money. As to loans by banks, the state prescribes that comparatively low interests shall be charged to enterprises that are well managed, work with low production costs and have quick turnover of capital or which produce products of great significance. Enterprises that are badly managed, work with high production costs, have a slow turnover of capital, and require relatively large loan capital, or enterprises that divert capital to irrational uses or that are unable to repay loans on due dates shall be charged high interest rates. These measures should encourage enterprises to improve their business management and increase manufacture of products needed by the nation. However, if enterprises with good management increase, enterprises with bad management decrease and macroeconomic results improve, the interest income of the banks will decline. In the opposite case, if well-managed enterprises decrease and badly managed enterprises increase, it will possibly increase the interest income of the banks. Under this system of interest rates, instituting free enterprise-style management in the specialized banks will possibly have the effect that they will become reluctant to accept long-term saving deposits, as they will in that case rather grant more of the high-interest loans and grant fewer loans for items which might be of the greatest significance for the construction of the national economy, for which they would be required to charge interests at preferential rates. Acting in this manner would harm the construction of our national economy.

To overcome this contradiction, it will be necessary, when conditions have matured, to radically change the current system of interest rates. The

central bank shall determine only the key interest rates and the upper and lower parameters of fluctuation, while specific interest rates shall be fixed by the specialized banks themselves within the parameters of fluctuation. Before this is done, the central bank should as soon as possible decide on a procedure to coordinate interests, so that the interests of the specialized banks, when attracting credit funds and when using credit funds, will coincide with the overall interests of the state. By allowing the specialized banks to adopt business activities according to their own interests, we shall implement the macrofinancial policy decision of the central bank and effectively promote the construction of our national economy. We must also establish more or less conformity between the profits of the specialized banks and the extent of their professional efforts; profits computed in proper business accounting will stimulate the business activities of the specialized banks.

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FINANCE AND BANKING

STATUS OF FOREIGN DEBTS DISCUSSED

Hong Kong WEN WEI PO in Chinese 10 Apr 86 p 10

[Article by Wu Nianlu [0702 1819 7627], deputy director, International Monetary Research Institute, Bank of China: "The Status of China's International Indebtedness"; an abridged version of a speech given at the symposium "China's Foreign Trade and Investments"]

[Text] Since the 3d Plenum of the 11th CPC Central Committee in 1979, under the general and specific policies of invigorating the domestic economy and opening up to the outside, China has achieved initial successes in the utilization of foreign capital.

The 3d Plenum of the 12th CPC Central Committee in 1984 passed the resolution on the "Reform of the Economic System," thus reaffirming China's fundamental policy of opening to the outside, a principle which was restated by the CPC National Congress in 1985.

Forms of utilizing foreign capital and channels for foreign capital show great diversity. It is intended here to introduce briefly the status of China's international indebtedness and the way it is managed.

During the period of the First 5-Year Plan, due to the economic blockade of China by Western countries, China mainly borrowed from the Soviet Union. These repeated loans, in rubles, amounted to about \$1,427,000,000 equivalent in American dollars and served the construction of 156 projects. A part of China's industrial capital constructions has been accomplished with Soviet loans. Principal and interests of all these loans were basically repaid by 1965. At this time, China's economic assistance, loans at low or no interest and gifts of money and materials to certain developing countries amounted to several billion dollars, by far exceeding China's loans from foreign sources.

In recent years, in the wake of China's opening up to the outside and the development of its international economic, trade and technological intercourse, China's loans from Western countries assume a greater diversity of forms. Apart from short-term loans in connection with general import and export trade, China, from 1979 to 1985, signed foreign loan agreements to the amount of \$20.3 billion and commodity credit agreements to the amount of \$1.762 billion. Of these amounts, \$15.6 billion of foreign loan funds and \$1.340 billion commodity credits have actually been used. In 1985, the amount

of foreign loan agreements was \$3.530 billion and of commodity credit agreements \$365 million. The following are further details:

1. Loans from International Financial Organizations

China borrowed from the International Monetary Fund \$309 million trust fund loans and \$450 million first line credit. All these loans were paid back by 1984.

Loans contracted with the World Bank amounted to \$3 billion (of which \$1.77 billion were hard loans, or 61 percent, and \$1.2 billion were soft loan special drawing rights, or 39 percent. The amount of hard and soft loans actually used up to now is only one-third of the total, namely \$880 million).

Loans contracted with the UN's International Fund for Agricultural Development amount to \$85 million, which are mainly being used for the improvement of the northern grasslands, development of animal husbandry and improvement of saline-alkali soil. Of this loan, only somewhat over \$8 million have actually been used by 1985.

Loans from international financial organizations have the advantage of favorable interest rates and extended terms. In the case of the World Bank loan, a systematic, comprehensive and strict system and method governed the selection of the projects in question and their appraisal, and extended to the execution and supervision of all projects, which, moreover, were accompanied by technological assistance, so that the effectiveness ratio of the loan projects and their economic results were very high.

2. Loans from Foreign Governments

At present, the governments or official finance organizations of 15 Western states have agreed to grant China credits amounting to a total of about \$5 billion. Most prominent is the \$1.5 billion loan for projects of the Japan Cooperation Fund. Japanese loans for energy sources amount to \$1.7 billion, and a series of Japanese commodity credits amount to \$800 million. The balance is made up of loans or credits from Denmark, Kuwait, Belgium, Italy, Switzerland, Sweden, Norway, Great Britain, France, Austria, Canada, Spain, and Australia.

Government loans are at favorable conditions and for long terms; some stipulate extended periods and low interest rates, some prescribe the scope within which the loans are to be used, some are linked with specific projects, some are to be used as the project progresses item by item. Government credits are granted to promote economic, trade and general friendly relations between the two governments and have a certain assistance nature.

To further promote the development of international trade, foreign loans are used for certain long-term imports for key construction projects. Certain governments use a mixture of government credits, buyer's credits, and loans by banking consortia. This may reduce the overall level of the loan interest rates. Some loans are linked with import projects, and are to be actually

used as and when items are imported. Some loans can be freely used. Some of such countries are Japan, Austria, Sweden, Italy, Switzerland, France and Australia.

3. Buyer's Credits

Since 1980, the Bank of China has at different times concluded overall agreements for purchase credits with 10 British banks, 19 French banks, 6 Italian banks and 13 Swedish banks, and also concluded agreements for purchase credits with specific banks in Canada, Australia, Belgium, Norway, Argentina, Denmark, the United States, with the West German Reconstruction Bank and the Export-Import Bank of Japan. For extended loans, the terms were from 5 to 10 years, and interest rates were fixed according to the standards of the OECD organization. Up to now, more than \$1.7 billion have actually been used.

4. Loans from Nongovernment Financial Organizations

The Bank of China, the International Trust and Investment Corporation and other financial institutions have concluded short- and medium-term bilateral loan agreements with certain Western commercial banks to raise funds and as a source of funds for domestic or foreign exchange loans.

5. Inward Transfer of Deposits from Abroad

The head office of the Bank of China is also bringing in available funds from its overseas branches by attracting deposits from residents in the areas in question and through other means.

6. Raising Funds Through Bonds

From 1982 to February, 1986, China has made 15 bond issues of different nature in Japan and Western Europe to the amount of \$1.260 billion. Refer to the following table for details:

DATE	ISSUED BY	AMOUNT (bn)	TERM (yrs)	FACE INT.RATE(%)	ISSUE PRICE	ACTUAL YIELD(%)
Jan 82	CITIC	Y10(p)	12	8.7	100	8.7
Aug 83	FIEC	Y 5(p)	10	8.5	100	8.5
Nov 84	BoC	Y20	10	7	99.65	7.059
Jan 85	CITIC	Y30	10	6.6	99.65	6.675
Apr 85	BoC	Y20	10	7.1	100	7.1
May 85	BoC	DM0.15	7	7	100	7
Jul 85	CITIC	HK\$0.3	5	9.375	99.90	9.4013
Sep 85	BoC	Y30	10	6.1	99.85	6.124
Sep 85	CITIC	DM0.15	6	6.625	99.75	6.6774
Sep 85	BoC	\$0.15	10	10	100	10
Sep 85	BoC	\$0.2	5	LIBOR**	100	LIBOR
Dec 85	FIEC	Y10	10	7.1	100	7.1
Dec 85	CITIC	\$0.1	10	9.625	100.75	9.5053
Jan 86	SITIC	Y20	10	6.7	100	6.7
Feb 86	CITIC	Y40	10	6.3	99.70	6.349

[NOTE: Issuers are China International Trust and Investment Corp;Fujian Investment Enterprise Co;Bank of China;Shanghai International Trust and Investment Corp. *Deposit certificates with floating interest rates. **Floating interest rate]

It is obvious from the above that the Bank of China, in its capacity of special state bank for foreign exchange transactions, is the main channel for China's foreign loans. In the course of its own business activities, the Bank of China is raising foreign exchange funds at the most favorable conditions possible. The objective of the Bank of China in raising funds is, first, to support the nation's four modernizations, with the main emphasis on the support of projects concerned with the development of energy sources, of the means of communication and in connection with projects for the technological transformation of medium and small scale enterprises, i.e., cases with short turnover of funds and production of export goods which create foreign exchange revenue. A second objective is to supplement the foreign exchange reserve of the state, improve China's ability to make foreign currency payments and to improve its turnover rate.

After several years of practice, we now realize that there are certain favorable conditions for raising loans in the international financial market in the name of the Bank of China. This is so because the Bank of China has developed from its past activities of mainly handling international settlements to a bank of international commerce, a foreign trade bank, investment bank, export credit bank and a foreign exchange bank with a great variety of business functions, mainly raising funds and providing short-term loans and credits, but also engaged in leasing, entrustments, consulting services and investments. The bank has a long history and enjoys a very high international reputation. It has a complement of specialized and well qualified staff and has had many years of experience in raising funds. It has, furthermore, basically established a worldwide organization and agency network, capable of promoting domestic and foreign business activities, and has an excellent understanding of the movements and information in the international financial market, which it utilizes highly effectively. The bank is therefore in a position to raise foreign funds in a planned way at the opportune time, in a variety of forms and through a variety of channels.

As to requirements for short-term loans, the Bank of China, with its modern equipment, maintains close daily contacts with the financial markets of all countries and engages in direct short-term loan transactions with foreign banks.

When raising funds, we combine long-, medium- and short-term funds and, as to interest rates, establish an appropriate proportion of capital at fixed and at floating interest rates. As to the currency of the loans, we consider both the problem of demand for the desired currency and the problem of the risk of its exchange rate.

Utilization of foreign commercial loans is work of a strong political and technical nature; it requires an investigation of the project for which the

loan is intended, and requires strict management and supervision, to ensure that the project conforms to the demands of the development of the national economy and can produce comparatively favorable economic results.

Of course, there are borrowers and lenders involved in international loans. At the same time as the Chinese government is utilizing foreign capital, it is also continuing to grant to friendly developing nations a certain amount of economic assistance and loans at favorable conditions. The key policy of the Bank of China in granting loans abroad is that, to the extent that such capital can be absorbed, the loans will actively support China's increased contracting for engineering work abroad, support tourism and also the "three-capital" enterprises (Chinese-foreign joint ventures, cooperative management enterprises and foreign-finance enterprises). But, we demand that China's contracts for engineering projects abroad must as far as possible be projects paid for in cash, and as few as possible, or no projects at all, with extended payment terms. Guarantees provided by the Bank of China must also in future be appropriately controlled, and loans to "three-capital" enterprises must in future primarily support projects which can balance their foreign exchange, which are technology-intensive, which are productive and capable of creating foreign exchange revenue.

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FINANCE AND BANKING

HIGHLIGHTS OF 1986 STATE TREASURY BONDS

Beijing CAIZHENG [FINANCE] in Chinese No 3, 8 Mar 86 pp 13-14

[Text] In the interest of a successful issue of the 1986 treasury bonds, the office of the Central Commission for the Issue of State Treasury Bonds compiled an "Outline of Propaganda on Behalf of the Issue of the 1986 State Treasury Bonds," of which the following is a summary:

1. Issue of Treasury Bonds as an Important Measure To Raise Construction Funds

China began at the start of the 1980's to issue treasury bonds, which during these 5 years amount to 23.7 billion yuan and have played a major role in enhancing our key construction and in promoting the development of our national economy.

Today, as the construction of China's socialist modernization enters the period of the Seventh 5-Year Plan for national economic and social development, our situation is in all aspects very good. Industrial and agricultural production is continuously increasing in a steady and proportionate manner, new developments take place in all constructive undertakings, the country's finances are well balanced, and there is a marked improvement in the urban and rural standard of living. Why should we under favorable conditions like these still continue to issue treasury bonds? For the reason that China is still a developing country with a comparatively backward economy. Insufficiency of capital for key constructions will for some time to come still be an acute problem, restricting the development of our national economy. The solution of the problem of insufficient capital for our socialist construction must first of all rely on the various taxes paid by enterprises and by the people to the state treasury; this is the principal measure. Second, we must also issue treasury bonds and utilize foreign capital. Thus, the issue of treasury bonds is one of the major means of the state to raise capital for the accomplishment of the four modernizations. It is for this reason that the State Council, after a full analysis of China's economic condition and developmental trend during the Seventh 5-Year Plan period, decided to continue issuing treasury bonds during the Seventh 5-Year Plan period, to gather in a portion of the social capital and to strengthen key construction that will ensure accomplishment of the strategic tasks outlined for the Seventh 5-Year Plan period.

2. Issue of Treasury Bonds as an Important Means of the State To Effect Macroeconomic Adjustments

The issue of treasury bonds diverts to the state the extrabudgetary funds of the enterprises and a part of the purchasing power in the hands of the people, which means that it will increase investments in the nation's key constructions without increasing the currency supply or the total purchasing power of the society as a whole. It promotes economic development without reducing the wealth of units or of the masses. The issue of treasury bonds is, furthermore, an important means of the state to effect macroeconomic control and to regulate the scope, structure and direction of investments during the ongoing economic construction, to regulate the proportionate relation between accumulation and consumption in the national economy and to regulate the issue and circulation of currency.

3. The Issue of Treasury Bonds Over Long Periods of Time Will Not Increase the Financial Burdens of Units or of the Masses

Some comrades have voiced concern whether the continuous issue of treasury bonds by the state and raising funds from among society at large will adversely affect the technological transformation of the enterprises and the improvement of the living standard of the people. We say that it will not, because China's economy has progressed very fast in recent years, and free capital held by the enterprises and income of the masses has increased very much. Since 1981, extrabudgetary funds throughout the country increased at the rate of over 20 percent per year. It is estimated to have reached an amount of over 140 billion yuan by 1985, increases that exceeded the increases of the state's budgetary revenue. At the same time, there was a steep rise in the country's consumption capital. In 1984 all salaries and wages throughout the country amounted to over 113 billion yuan, an increase of over 19 billion yuan over the preceding year, and an increase at the rate of 20.1 percent, far in excess of the 7.8 percent increase in productivity in industrial enterprises during the same period. Savings deposits of the urban and rural population continuously increased over the last few years. In 1984 alone deposits increased by over 32 billion yuan, and for 1985 it is estimated that the increase will be around 30 percent over that of the preceding year. On the other hand, the treasury bonds issued in 1986 will amount to 6 billion yuan, 2 billion yuan to be taken up by units and 4 billion by individuals. These bonds account for only a very small portion of the state's budgetary revenue, and of the income and saving deposits of the urban and rural population. They will have no adverse effects on the technological transformation of enterprises and on the living standard of the people. Furthermore, from 1986 on, the state will begin to repay the principal and interests of treasury bonds issued in previous years. As the free capital of units and the income of the urban and rural population continuously increase in the wake of the development of production, there is a continuous increase in the capacity of the units and the masses to shoulder financial burdens.

4. Every Unit and Every Citizen Is Duty Bound To Subscribe Enthusiastically to Treasury Bonds in Support of the Four Modernizations

The goal of China's socialist modernization is the continued improvement of the material and spiritual living standards of the people by the further development of production and by raising productivity. Although the excessive scale of extrabudgetary investments in fixed assets and the steep rise in consumption capital have been currently somewhat rectified, no radical change for the better has so far been achieved. No radical solution can possibly be found within a short period of time for the shortcomings in our energy sources, and in the traffic, communications, raw and semifinished materials situation or for the shortages of capital for key constructions. This situation not only hampers economic development and obstructs progress in our reforms, but also has an extremely detrimental effect on the development of enterprises and the further improvements in the living standard of the people. The issue of treasury bonds temporarily borrows a portion of funds now held by units and by the masses to be used to strengthen investments in the key constructions and in the infrastructure of the state, which will lay a solid foundation for the future development of the economy. This is not only an interest of the state, but also a vital long-range interest of every unit and of the whole people. Every unit and every citizen in China is duty bound to subscribe enthusiastically to treasury bonds in support the four modernizations, which would also be the concrete expression of a patriotic spirit.

5. Interest Rates for Treasury Bonds Have Again Been Raised Out of Due Consideration for the Economic Benefits of the Buyers

The purpose of the masses in buying treasury bonds is to support national construction, but the state, on the other hand, also gives due consideration to the economic interests of the buyers. The annual interest rate for treasury bonds bought by units, which last year was 5 percent, has this year been raised to 6 percent. This is higher than the interest rate for fixed deposits for a 3- or more-year period. The annual interest rate for bonds bought by individuals was raised from last year's 9 percent to this year's 10 percent, which is also higher than the bank interest rate for deposits of the same duration. Persons buying 1,000 yuan of treasury bonds will be paid back in one amount after 5 years, and their principal and interests will then amount to 1,500 yuan. Purchases of treasury bonds by units and by the urban and rural masses are on the one hand supporting the four modernizations by practical action, and are also on the other hand providing certain economic benefits. Their purchase is an action that is in the interest of the state and in one's own interest, a good action in that it benefits the state as well as the people.

6. Key to the Successful Accomplishment of the Task of Issuing the Treasury Bonds Is Thoroughgoing and Painstaking Work

Key to the successful accomplishment of the task of issuing the 1986 treasury bonds is the need for governments at all levels to strengthen their guidance of the work of selling the bonds, to have them perform this work in a thoroughgoing and painstaking way and to have them ensure that the task of selling the bonds will be accomplished. For a successful conclusion of the work of selling the 1986 treasury bonds, we shall have to pay attention to the following few questions:

(1) We must conscientiously perform, and perform well, the work of propagandizing and of mobilizing the people. In the last few years, the work of propagandizing and mobilizing the masses has achieved certain successes and has been very effective in ensuring overfulfillment of our tasks, but at some places propaganda is being conducted neither in depth nor painstakingly, but in a dull manner. Some units go in for it in a casual way, giving attention merely to getting over with the task, without any propaganda, so that some people are left befuddled about the significance of the issue of treasury bonds. Leading comrades of the central authorities have repeatedly pointed out that the raising of funds by treasury bonds is an important measure to speed up the four modernizations, and that buying treasury bonds in support of the four modernizations is the duty of every single unit and citizen. These points were again emphasized in the "Regulations Governing the Issue of the 1986 Treasury Bonds of the PRC," issued and circulated this year by the State Council. It is imperative that leading comrades at all levels and all comrades engaged in the sale of treasury bonds transmit this spirit, through whatever channels there are, to the thousands upon thousands of households throughout the country. Wherever there are problems in the understanding of the issue among the masses, it is hoped that the comrades in charge of selling the treasury bonds will provide explanations and clarifications that integrate the particular conditions of the local situation and aim precisely at the problems involved. Currently, all places are conducting education on the present situation. We should combine the work of propagandizing the treasury bonds and mobilizing the masses for their purchase with the education currently being given on the present situation, making propaganda for the issue of the treasury bonds a part of the ongoing education on the present situation. At the same time all places could also make the active subscription to treasury bonds in support of the four modernizations a part of the work of those units that are engaged in building up our spiritual civilization and in education in our ideals, so as to foster among the masses a glorious sense of honor in the enthusiastic subscription to the treasury bonds in support of the four modernizations, and also to arouse the patriotic fervor among the broad masses of the people and thus ensure the accomplishment of the task of selling the treasury bonds.

(2) To accomplish the task of selling this year's treasury bonds, a distributive issue system was employed. The units were allotted their task according to a certain proportion of their extrabudgetary funds or according to the amount of profits after taxes retained by collective enterprises. The urban and rural citizens were allotted their tasks generally according to a certain proportion of their incomes. Every effort should be made to allot tasks everywhere in a rational way. In the case of units, the rational allotment should be based on an investigation of their financial strength. The allotment of tasks to units is of the character of an assigned procurement; it is imperative that each unit attach importance to the overall situation, make advance arrangement for the necessary funds to purchase its treasury bonds and punctually, as required by regulations, pay the required amount to the treasury; there must be no delay. The task of selling the bonds to staff and workers must be based on effective political ideological work. This task shall be allotted to the units in question in accordance with the total amount of salaries and wages of their staff and workers, or in

consideration of the different levels of salaries and wages. The units may fix the allotments for their various teams and groups or for individual employees and workers, using the method of either having their staff and workers voluntarily subscribe or of proceeding on the principle of having each person buy bonds according to his particular larger or smaller capability. No allotment of a purchasing task should be made in the case of the small number of comrades who have genuine difficulties in their livelihood or who have no purchasing power. Every unit or individual must punctually fulfill the purchasing task allotted by the state.

Sales of treasury bonds in the rural areas in the last few years had achieved very good results by a method that combined universal mobilization with sales in key areas. We should continue this sales method in future. In particular, further raising the interest rates for this year's bonds above the bank rates for deposits for the same period of time should make it all the more possible to arouse the purchasing enthusiasm of the many well-to-do peasants and provide favorable conditions for their mobilization to buy more treasury bonds. In case of the general type of places and peasants, each locality may appropriately allot certain treasury bond tasks according to its specific conditions. No treasury bond allotments should again be imposed on poor districts and poor peasants.

The smallest denomination of this year's treasury bonds is again 5 yuan; no purchase balance of any staff, worker or peasant household should be for a smaller amount than 5 yuan. Those unable to make a purchase of 5 yuan may be exempted from purchasing treasury bonds.

3. The work of issuing treasury bonds is a long-term task of the future. Everywhere committees for the sale of treasury bonds and their working organizations should be appointed on a regular basis. Their complement of staff should be relatively stable and where staff is inadequate, it should be appropriately replenished. The financial departments at all levels should act in the spirit of the State Council circular and set up permanent work organizations, staffed with the necessary number of special employees.

4. The work of issuing treasury bonds involves a wide field and requires close coordination between all departments concerned. Especially in the matters of issuing the bonds and of repaying principal and interests, the regulations governing the treasury bonds already stipulate clearly that these matters shall be handled by the People's Bank of China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China and their subordinated organizations. In its circular regarding the regulations governing the 1986 treasury bonds, the State Council had clearly pointed out: "Banks at all levels shall incorporate the work of issuing treasury bonds into their regular business operations, and perform this work conscientiously and efficiently. The propaganda departments at all levels shall work in close coordination and strengthen their propaganda and guidance work." It is therefore hoped that the comrades in the departments concerned will conscientiously implement the spirit of the State Council circular, further strengthen cooperation and jointly do a good job of issuing the treasury bonds.

5. If some people do not want to buy treasury bonds at their units, but rather buy them directly at banks, this is permissible. All banks shall render facilities and maintain secrecy for direct buyers in the same manner as in the case of saving deposits.

INDUSTRY

SHANGHAI EXPANDS SHIPBUILDING, SHIPS EXPORT

HK260749 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0158 GMT 23 May 86

[Report: "Shanghai Has Become China's Most Powerful Shipbuilding and Ships Export Base"]

[Text] Shanghai, 23 May (Zhongguo Xinwen She)--Some 20 shipyards along Huangpu Jiang in Shanghai constitute China's most powerful shipbuilding and ships export base.

This huge shipbuilding base is turning out a large number of missile escort vessels, antisubmarine excort vessels, and other new-type naval vessels.

During the Sixth 5-Year Plan period, Shanghai built 442 vessels for domestic use and foreign ship merchants, accounting for about half of the total tonnage of the China shipbuilding Industrial Corporation.

In the coming 5 years, China will build six bases for exporting ships, the four major ones of which are the Jiangnan, Zhonghua, Shanghai, and Hudong shipyards. The State Council has approved the expansion of foreign trade authonomy of shipbuilding enterprises in Shanghai.

In recent years, Shanghai has introduced from many countries shipbuilding technology and production managerial methods of advanced international standard. It has bought the patents for the world's most advanced ship diesel engine technology from Switzerland, Denmark, and the FRG as well as the patents for ship generating units and deck machinery from Britain, France, and Japan. Shanghai can now manufacture ships according to the requirements of the main ship classification societies in the world.

Shanghai is now building two ships each with a tonnage of 60,000 and will complete the building of seven ships each with a tonnage of 10,000 this year, the total tonnage being 264,000. Meanwhile, it is starting to build 11 other ships each with a tonnage of 10,000. The variety of ships is undergoing a change from bulk cargo ships to container ships, unmanned cabin bulk cargo ships, multipurpose ships, and tri-puopse working ships.

The "Yuanwang" and "Xiangyanghong No 10" survey ships, both designed and built by the Shanghai Jiangnan shipyard and the China Ships and Uu Engineering and Design Research Institute, have taken part in transporting rockets. In the investigation concerning the launching of synchronous telecommunications satellites, and in surveying the South Pole. In particular, the building of the "Yuanwang" survey ship and its success in fulfilling its tasks have been acclaimed by astronavigation circles in the country and abroad as a milestone in China's astronavigation history. Shanghai is now building for the FRG two new-type ships for transporting cars each with a tonnage of 24,000 and the new-type 64,000-ton bulk cargo ships being built for a Hong Kong compnay has the largest tonnage of any ship ever built by Shanghai.

Lu Shansen, manager of the Shanghi shipbuilding industrial company, said: The international ship market will not remain depressed forever, and Shanghai will make good preparations in various aspects of its shipbuilding industry for the arrival of the emerging period of navigation.

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CSO: 4006/1060

CONSTRUCTION

PRC PORT CONSTRUCTION REVIEWED

HK220939 Hong Kong LIAOWANG (Overseas Edition) in Chinese No 19, 12 May 86
p 21

[Article by Yi Fei [0001 7378]: "China's Port Construction -- Review and Prospects"]

[Text] In recent years, China's ports are often jammed with vessels and shipments delayed. This shows that, on the one hand, China's contacts with other countries are expanding swiftly and, on the other hand, its basic port facilities still far from suit the needs of opening up to the outside world and invigorating the domestic economy. During the fourth session of the sixth NPC conference held recently, Premier Zhao Ziyang reemphsized the importance of communications and transportation, stressing that communications and transportation will still be the focal points of economic development in the "Seventh 5-Year Plan." It is expected that during the "Seventh 5-Year Plan" period, China's port construction will advance by leaps and bounds and the strain on ports will be greatly relieved within 5 years.

According to an analysis made by people of the departments concerned, the changes which have taken place in China's ports over the last 5 years are mainly characterized by the following three aspects:

First, unprecedented growth developed in port construction and production. During the "Sixth 5-Year Plan" period, China built a total of 54 10,000-ton deep-water berths and 25 5,000-ton middle-class berths, adding a loading and unloading capacity of over 100 million tons. On average, 11 deep-water berths were built per year, adding a loading and unloading capacity of 20 million tons. As a result, the total number of deep-water berths in the main coastal ports amounts to 199 and the total number of middle-class berths has reached 156, with the total loading and unloading capacity coming to over 317 million tons. The construction achievements made in these 5 years are nearly as much as the total achievements made in the 10 years from 1970 to 1979. The freight loading and unloading capacity in the main coastal ports overfulfilled the target stipulated in the "Sixth 5-Year Plan" 1 year ahead of time. Freight handled in 1985 amounted to over

350 million tons, an increase of 62 percent over 1980 and showed an annual average growth rate of 10.1 percent. In 1984 and 1985, the transaction capacity of Shanghai port, the largest commercial port in China, topped 100 million tons for the 2ⁿ year in succession, thus leaping into the ranks of the world's 100-million-ton ports.

Second, a number of policies and measures were worked out to expedite the development of ports. The principle that both the central and local authorities should promote port construction and that equal importance should be equally attached to large, medium and small ports and the building of new ports and the transforming of old ports was proposed. To expand the source of funds for port construction, the "interim provisions for according preferential treatment to Chinese-foreign joint ventures engaging in port and wharf construction," charging additional port dues to freight in the main coastal ports, and other methods were publicized.

Third, a new tendency by inland provinces and regions to pool funds to build ports has arisen. Over the last 5 years, three wharves have been built by freight owners, jointly built by localities or by foreign capital. In 1985 alone, as many as 32 wharves and berths were built by the material departments of Hubei Province, totaling a loading and unloading capacity of over 2 million tons. In order to jointly exploit and use Lianyung Port, the seven provinces and cities along the Long-Hai railroad set up a special coordination group and signed an agreement to build seven 10,000-ton deep-water berths through consultation, in an effort to open up seaways for these inland provinces and cities.

Prospects for the Coming 5 Years

According to plans by the communications and transportation departments, during the "Seventh 5-Year Plan" period beginning from this year, the coastal ports should complete and commission 100 to 120 deepwater berths and build 80 medium and small berths. The number of deepwater berths will more than double the berths completed and commissioned over the last 5 years. By 1990, the total transaction capacity in coastal ports will amount to 550 million tons, an increase of 67 percent over 1985. In the specific plans for the shipment of bulk cargoes, the following aspects have been listed as focal points:

-- Transportation of energy resources. To coordinate with the efforts to ship the Shansi Province's coal eastwards, four coaling ports linking up with the northern, central and southern railroads will be built in the coastal areas. Besides, 13 coaling ports will be built in each relevant coastal coal-receiving province or region. By 1990, the coastal ports' coal-loading capacity should reach over 100 million tons; their coal-unloading capacity should reach over 80 million tons; and the coal-exporting capacity should reach 20 million tons. Therefore, in addition to the coastal transportation fleets, a complete marine coal transportation

system can be formed. As for transportation of crude oil, two new 200,000-ton crude oil berths will be built in Dalian and Qingdao, adding a loading capacity of 29 million tons. By 1990, China will have 11 crude oil loading berths with an annual loading capacity of 90 million tons, which can basically meet the crude oil shipping needs of all major oil fields in China.

-- Containerized transportation. By the end of 1990, the total transaction capacity of China's container berths will reach 1.4 million containers, or 10 million tons. Special berths for shipping timber will amount to 23, with a loading and unloading capacity of over 10 million tons.

-- Grain transportation. Construction of berths for shipping grain in ports like Qinhuangdao, Lianyungang, Yinkou, Dandong, and so on, will be started or accelerated. Furthermore, priority will be given to the transformation of the Ganjingzi container wharf in Dalian, in an effort to meet the needs of importing and exporting grain.

-- Transshipment. In the coming 5 years, two stages to increase the number of anchorage, pontoon, marine transfer platform, barge, tug, and other facilities will be increased in two stages. This will raise the loading and unloading capacity by 38 million tons. In order to divert freight volume of major ports and promote economic development in coastal areas and transportation between the mainland and islands, about 80 medium and small berths, which can be used in both passenger and freight transportation, will be built in over 20 coastal ports, adding a transaction capacity of about 30 million tons.

If the abovementioned plans can be completed as scheduled, three fundamental changes will take place in China's coastal ports: First, the phenomenon of congestion will be greatly relieved; and by 1990, the number of China's coastal berths will reach about 1,200. Of these, 300 to 320 will be deep-water berths, thus attaining a normal ratio of 1:2 between the number of berths and the number of vessels in port. Second, the water transportation of key materials can be basically handled in ports. For example, the water transportation of bulk materials like coal, crude oil, ores, grain, timber, and so on, can be generally linked up with the transportation capability of railroads and pipes, thus coordinating the loading and unloading capabilities of both the marine coal and crude oil transportation systems. Third, the degree of modernization in ports will be improved, the structure and layout of ports and the conditions of highway transportation will be greatly improved.

The Primary Works for This Year

Departments responsible for the work in China have required the coastal ports to raise this year's total transaction capacity to more than 340 million tons and make a success of those port construction items which have already been included in state plans. Beginning this year, the investment in underwater projects at ports and berths which have already

been incorporated in state plans will be gradually undertaken by the state, while the construction of shore facilities will be completed by every port office and operational unit by soliciting loans or raising funds themselves. This year, the transshipment business will also be expedited. Meanwhile, efforts should be made to firmly grasp the technical transformation in ports. The stress of the technical transformation should be put on energy resources, foreign trade and passenger transportation stations and places, as well as on reconstructing the coastal wharves and berths with backward technology and equipment, expanding stockyards and storehouses, and improving the transportation conditions.

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FOREIGN ECONOMIC LEGISLATION REVIEWED

Beijing ZHONGGUO SHEHUI KEXUE (SOCIAL SCIENCES IN CHINA) in Chinese No 5,
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[Article by Zhang Xiangyu [1728 5046 1342], responsible editor Lan Yongwei [5663 3057 5588]: "A Preliminary Study of China's Framework of Foreign Investment Laws"]

[Text] The present article affirms the fact that China has built up a framework of foreign investment laws. The article believes them to be composed of two parts: domestic laws and treaty law, both types being under the supreme direction of the constitution. The present article discusses the legislative motives and aims of China's framework of foreign investment laws, analyzes the policy expressed in the framework and presents its own ideas on the administrative levels of China's framework of foreign investment laws.

The author, Zhang Xiangyu, was born in 1957, taught law at Wuhan University's law faculty and obtained a master's degree in law at the Wuhan University. In 1984 he obtained a master's degree from the college of law of the University of Michigan in the United States and is now working toward his doctor's degree at the College of Law of the University of Michigan.

The degree to which a country has perfected its legal system is one of the important indices to measure the quality of its investment environment. Following the 3d Plenum of the CPC Central Committee, the NPC launched systematic legislation of foreign investment laws. The various departments of the central government and of local governments too drew up many laws and regulations relative to foreign investments. In the 5 years from 1979 to 1984, China enacted almost 60 laws and regulations concerning foreign economic relations and foreign investments. (Footnote 1) At the same time, China signed several agreements for the protection of investments and other bilateral agreement related to investments with the numerous countries that were the main investors in China. A fairly complete Chinese system of foreign investment laws has thus been shaped. This system is composed of two parts, the domestic laws and the legal provisions of the treaties, and both components are topped by the principles anchored in China's Constitution. This situation has made it an important task for scholars of jurisprudence to probe into the content, structure and characteristics of this system.

I. Principles of the Constitution

Many Westerners who study the Chinese foreign investment laws seem to believe that there is a conflict between the Chinese investment legislation and the Chinese Constitution. (2) As they see it, there is a deep contradiction between the principle of China's foreign investment laws in acknowledging and protecting foreign investments and the principles of public ownership and planned economy set forth in the constitution. However, these persons have no true understanding of the Chinese Constitution.

The public ownership system of socialism is China's fundamental economic system as set forth in the Chinese Constitution, but it is not the only form of an ownership system in China. In view of the comparative backwardness of China's economy and its desire to quickly bring about a change in this situation and transform China into a modern socialist state, the Chinese Constitution has adopted the following principle in its socioeconomic system: Given the premise of upholding the leading position of the state economy, China must develop diverse economic forms, so as to promote the prosperity of the entire national economy.

Planned economy is the fundamental characteristic of the socialist public ownership economy, as it is also one of the fundamental principles fixed in the Chinese Constitution. However, at the same time as China's Constitution affirms that "the state will implement planned economy on the foundation of the socialist system of public ownership," it also affirms the role of market regulation. (Article 15) There is absolutely no contradiction between the implementation of planned economy and the use of the law of value and the development of a commodity economy. In summary one may say that China practices a planned commodity economy. China's Constitution also prescribes: "State enterprises shall have decision-making power in operation and management within the limits prescribed by law, on the condition that they submit to the unified leadership of the state and fulfill all their obligations under the state plan," (Article 16) and that "collective economic organizations shall have decision-making power in conducting independent economic activities, on condition that they accept the guidance of the state plan and abide by the relevant laws." (Article 17) The economic principles of China's Constitution are not at all mechanical and rigid, but have a large measure of elasticity and diversity. (4)

The sense of principle and the flexibility of the Chinese Constitution provide strong legal support for wide-ranging attraction of foreign capital and for the establishment of new economic forms, such as the joint venture enterprises. There are, furthermore, specific articles in China's Constitution that express the principle of attracting foreign capital and protecting foreign investments. Article 18 of the Chinese Constitution prescribes: The PRC allows foreign enterprises, other economic organization and individuals to invest in China and to engage in economic cooperation of various forms with Chinese enterprises or other economic organizations in accordance with the provisions of Chinese law. On Chinese territory, foreign enterprises and other economic organizations as well as Chinese-foreign joint venture enterprises must abide by the laws of the PRC. Their lawful rights and interests receive the protection of the laws of the PRC.

The Chinese Constitution is the legal basis for all of the country's territorial laws and various individual laws and regulations. The constitutional principle of affirming and protecting foreign investments provides a feasible legal foundation for the establishment of China's entire system of foreign investment laws. During the entire process of China's foreign investment legislation, whether in the formulation of individual domestic laws or the signing of bilateral international treaties on investments, the principles of the constitution regarding adherence to the socialist economic system and the treatment of foreign investments have all along been the directives of highest authority.

II. Principles, Policies and Objectives of China's Foreign Investment Legislation

The principles set forth in the constitution are highest authority for China's foreign investment legislation, but any individual independent legal system will also want to give expression to its own principles, policies and objectives. The primary principle of China's foreign investment legislation is the principle of sovereignty.

Sovereignty is the key factor that allows us to measure the success or failure of a country's foreign investment legislation. In old China, the policy of the reactionary governments was one of selling out the country's sovereign rights. As a consequence, foreign capital monopolized China's national economy, subdued its national industry and commerce, impeded their development, and had China, finally, decline into the state of a semifeudal, semicolonial country. In their states of economic backwardness, certain Third World countries have had the same experience of merely seeking eagerly to import foreign capital while disregarding the need to emphasize the principle of sovereignty in their relevant legislation, with the result that foreign capital monopolized the lifelines of the national economy and even threatened the political independence of the countries in question. China is an independent socialist country. While China intends to import foreign capital and advanced technologies on a broad scale, it must at the same time draw lessons from Chinese and foreign historical experiences and firmly uphold the principle of sovereignty.

The principle of sovereignty is nothing abstract, but is a legislative principle with abundant meaning. Its basic demand is that no foreign investment must harm the totality of our country's sovereignty. (5) By implementing the principle of sovereignty in our foreign investment legislation, we can ensure the state's control, supervision and proper management of foreign capital. For instance, by its legislation, the state can restrict foreign capital from infiltrating vital sectors of the country's economy, such as the war industry. Through the establishment of a legal procedure of examination and approval of foreign investments, the state can maintain effective controlling powers over foreign capital. The principle of sovereignty in foreign investment legislation is also evident in the legal demand that foreign investments must not destroy China's ecological equilibrium or pollute the environment, and also not violate China's socialist ethics. (6)

Another important principle incorporated in China's investment legislation is the principle of equality and mutual benefit. The principle of equality and mutual benefit is an important principle that China has consistently advocated and faithfully pursued in its foreign economic relations. This principle is also recognized by most countries and in certain important documents of international law. (7) It is one of the major principles that guide modern international economic intercourse. In past international economic relations, the capital-exporting countries hoped to be able to use their capital exports to exploit and plunder the capital-importing countries. Frequently, such capital-exports resulted in the capital-exporting countries getting richer and richer and the capital-importing countries getting poorer and poorer. During the period from the 1960s to the early 1970s, many Third World countries launched movements for the establishment of a new international economic order, with the aim of changing the economic imbalance in the world brought about by the exports of capital, and to establish the principle of equality and mutual benefit as the major legal basis for the world's new economic order.

The core of the principle of equality and mutual benefit is its "mutuality." In their economic-legal meaning, equality and mutual benefits are two inseparably linked concepts. In the course of international economic activities, there can be true equality only if there is also mutual benefit, and there can be real mutual benefit only if there is true equality. China is a big country abounding in natural wealth, it has abundant natural resources, a huge market potential and relatively cheap manpower, but China's economy is comparatively backward and in need of large imports of foreign capital and advanced technologies. This is the actual foundation on which China practices the principle of mutual benefit in its investment policy. China's foreign investment laws, therefore, persistently emphasize not only in China's treaty law sector, but also in the sector of its domestic laws, the importance of conducting investment activities on the basis of equality. For the most favorable implementation of the principle of equality and mutual benefit, China's foreign investment laws obviously tend to favor the forms of joint ventures for the importation of capital, since by using this form, it is possible to achieve a closer integration of the interests of the two parties, the Chinese and the foreign investors, on the basis of equality.

Law is the manifestation of policy. China's current foreign investment legislation abundantly manifests an important policy; this is the policy of the state of currently encouraging foreign investments. Because China had in the past overemphasized the principle of reconstruction through its own strength, no experiences were gathered in the field of importing capital, and many foreign investors, for this reason, maintained scepticism as to investments in China. On the other hand, China's four modernizations urgently need foreign capital and advanced technologies. This fact determined for China that it is necessary at the present stage to adopt a policy of encouraging foreign investments. China's foreign investment laws have played an important role in this respect. The policy of encouraging foreign investments in China's foreign investment laws is not limited to one or two slogans, but is incorporated in a large number of substantive legal provisions. First, the treaties concluded by China with various countries

regarding investments generally include such favorable clauses as the most-favored-nation clause, clauses against uncompensated expropriations or nationalization and clauses for the transfer of profits . (8) Second, in domestic legislation, China has instituted the system of special economic zones [SEZs]. A variety of favorable investment conditions apply to these SEZs, creating a unique investment environment for foreign investors. Third, China's foreign investment laws, furthermore, encourage foreign investments by policies of low taxation and of exemptions from income tax for the initial periods of investments. For a more effective attraction of advanced technology imports from abroad and to encourage foreign investments in China's remote border regions or in China's relatively weak economic sectors, China's foreign investment laws provide a great variety of favorable provisions at different localities.

The objective of China's foreign investment legislation is simply to provide protection by legal means for foreign investors, for foreign investments and for foreign investment profits, on the condition of upholding China's national sovereignty and national interests. The most basic objective of China's foreign investment legislation is to establish a perfect legal system to facilitate importation on a broad scale of foreign capital, foreign advanced technologies and advanced managerial experiences, and thereby promote China's economic development, raise the level of China's science, technology and business management and speed up realization of China's four modernizations. A complete system of foreign investment laws will also promote China's economic cooperation and technology exchanges with other countries, thereby giving added impetus to the economic, scientific and technological development throughout the entire world.

III. Domestic Legislation

(1) Development of Domestic Legislation

The Law of the PRC on Joint Ventures Using Chinese and Foreign Investment, adopted by the Second Session of the Fifth NPC on 1 July 1979 (hereafter called the "Chinese-Foreign Joint Venture Law"), signifies the beginning of China's foreign investment legislation. The promulgation of this law evoked strong responses in China as well as abroad. While praising China's foreign investment legislation, many foreign scholars at the same time expressed disappointment with the law itself. In their opinion, it was an imperfect and imprecise law. (9) However, these persons did not completely understand China's legislative intention and guiding ideology.

The Chinese-Foreign Joint Venture Law provided fundamental guiding principles for the establishment of China's system of foreign investment laws. Even though it consisted of only 15 simple articles, each article had important legal significance. Since the 31 Plenum of the 11th CPC Central Committee had decided on an open-door economic policy, and since China's four modernizations were in urgent need of large amounts of foreign capital and advanced technologies, and since, furthermore, foreign investment legislation was an as yet untried matter with very little experiences available at that time, these factors determined that our first foreign investment legislation could not go into detail, but could merely provide fundamental principles. Even though

this law does not go into great detail, it is comprehensive. The said law contains provisions of a principle nature as to the principles and objectives of China's importation of foreign capital, the legal status, management and capital investment ratios of joint ventures, the scope of their operations, taxation, profits and foreign exchange as well as on the contracts themselves and the settlement of disputes. It is in this form that it became the basis for later Chinese foreign investment legislation. When it was enacted, the significance of the Chinese-Foreign Joint Venture Law far exceeded the mere articles of its text, since it indicated China's resolve to use the legal system in support of its importation of foreign capital and to protect foreign capital investments. It signified, therefore, that China will enact in future many more foreign investment laws and even build up a perfect system of foreign investment laws. (10)

One year later, in July 1980, based on the principles of the Chinese-Foreign Joint Venture Law and a year's experiences in the work of importing foreign capital, the State Council promulgated the PRC Regulations on the Registration of Chinese-Foreign Joint Ventures and the PRC Regulations on Labor Management in Chinese-Foreign Joint Ventures. The former is a detailed elaboration of Article 3 of the Chinese-Foreign Joint Venture Law and fixes in law the procedure for the registration of Chinese-foreign joint ventures. The latter regulation was drawn up based on the principles of Article 6, Paragraph 2 and Article 4 of the Chinese-Foreign Joint Venture Law and solves all legal questions in connection with labor contracts by the Chinese-foreign joint ventures. In September of the same year, the Third Session of the Fifth NPC promulgated two tax laws: The Income Tax Law of the PRC Concerning Chinese-Foreign Joint Ventures and the Individual Income Tax Law of the PRC. At its Fourth Session in December of 1981, the Fifth NPC adopted yet another important tax law concerning foreign capital: the Income Tax Law of the PRC Concerning Foreign Enterprises. These three income tax laws express the various policies adopted by China regarding taxation of foreign investments. Based on the principles of these three laws, the Chinese Ministry of Finance drew up as a further step three corresponding law enforcement regulations, which were approved and promulgated by the State Council. In this manner, China achieved a comparatively complete system of tax laws. Out of consideration for specific investment objectives, the State Council at the same time drew up the Regulations of the PRC on Cooperation With Foreign Parties in the Exploitation of Offshore Oil Resources, and out of consideration for peculiarities of the investment territory, the Standing Committee of the NPC approved the Regulations of the PRC on Special Economic Zones in Guangdong Province. China also issued regulations on the control of resident representatives of foreign enterprises and drew up legal provisions on the control of foreign exchange remittances by foreign organizations and individuals. Furthermore, following the increasing opening up of the country and importation of foreign capital, China in recent years actively improved its relevant maritime customs laws and other legal systems having a bearing on foreign investments.

On 20 September 1983, the State Council promulgated the Enforcement Regulations to the Law of the PRC on Joint Ventures Using Chinese and Foreign Capital (hereafter the "Chinese-Foreign Joint Venture Enforcement Regulations"). This signified the basic completion of China's framework of

foreign investment laws. This law has 16 chapters and 118 articles, and it is based on more than 4 years of experiences in the work of importing foreign capital, it greatly enriched and elaborated in detail the principles expressed in the Chinese-Foreign Joint Venture Law of 1979. China's foreign investment law is no longer a set of abstract legal principles, but a comprehensive system of specific legal norms of more than 1,000 articles.

(2) The Structure and Special Characteristics of Domestic Legislation

China has been comparatively late in starting to import foreign capital. When China began to legislate on foreign investments, many countries of the world had already established perfect legal systems on foreign investments. China's legislation on foreign investments not only widely referred to the achievements of other countries in this line of legislation, but also summed up the practical experiences gained in the concrete conditions of China. China's system of foreign investment laws, therefore, displays a unique national structure and distinctive national traits.

In its overall aspect, China's domestic legislation on foreign investments shows three structural levels. The three different levels are linked with one another, exercise an impact on one another and thus form a comprehensive domestic legal system. The three structural levels of domestic legislation on foreign investments are: 1. Local laws and regulations; 2. The legal norms and enforcement regulations drawn up by the departments of the central authority and by the State Council; 3. The various individual laws passed by the NPC. In the following we shall discuss the substance and relations of these three structural levels:

The local laws and regulations mentioned as the first administrative level refer to laws and regulations issued by China's local governments. Article 100 of the Chinese Constitution prescribes: "The people's assemblies of provinces and directly administered municipalities, as well as their standing committees, may enact laws and regulations of a local nature, provided they do not conflict with the constitution, laws and administrative regulations; such local enactments shall be reported to the Standing Committee of the NPC for the record." Since the initiation of the open-door policy, several local governments enacted certain laws and regulations of local nature or of special nature based on the actual conditions of the locality concerned, in order to further broaden the importation of foreign capital. The most conspicuous of these are the Regulations on Special Economic Zones in Guangdong Province, passed by the Guangdong Provincial People's Assembly and approved by the Standing Committee of the NPC on 26 August 1980. These regulations were drawn up in consideration of the coastal location of Guangdong Province and its special geographical environment, namely the proximity to Hong Kong and Macao. The law delineates a certain area as an SEZ and, furthermore, provides for this area more favorable treatment for investors than at other places, in order to attract larger amounts of foreign capital. After establishment of the SEZ, it became necessary to establish a series of laws and regulations pertaining to the said SEZ, such as the Provisional Regulations on Labor Management in the SEZ, provisional Regulations on Land Management in the SEZ, etc. The laws of this organizational level have the following obvious characteristics: one, they are of local nature, and two, they are of a

particular nature. Laws of this type generally apply only within a certain territory and will provide improved protection and more favorable treatment for foreign investments. In May of 1984, the CPC Central Committee and the State Council decided to open up a further 14 coastal ports, based on the successful experiences of the operation of SEZs in China, in order to attract more foreign capital and import more advanced technologies. There will, therefore, in future be a gradual increase in foreign investment laws of this structural level.

On the second administrative level, there are the legal norms and enforcement regulations drawn up by departments of the central authority and the State Council. The number of these regulations is very large, and they are, furthermore, regulations with fairly specific formulations, and therefore, there are many opportunities to apply them. For instance, the Enforcement Regulations to the Chinese-Foreign Joint Enterprise Law promulgated by the State Council, the three enforcement regulations to the foreign investment income tax laws drawn up by the Ministry of Finance and approved by the State Council, the Provisional Regulations Governing State Control of Foreign Exchange passed by the State Council on December of 1980, as well as the corresponding two enforcement regulations promulgated by the State General Administration of Exchange Control, the Regulations of the PRC on Foreign Cooperation in the Exploitation of Offshore Oil Resources adopted by the State Council in January 1982, all these belong to this administrative level. The laws of this administrative level constitute the principal part of domestic legislation on foreign investments. The special characteristics of this legislation are that it touches on a large spectrum of questions regarding foreign investments and that it, furthermore, provides clear, specific and substantive legal provisions.

The third administrative level tops the second level and is constituted by various individual laws and regulations on foreign investment promulgated by the NPC, for instance, the three income tax laws regarding foreign capital and the Foreign Economic Contract Law, promulgated by the NPC, as well as the Foreign Enterprise Law, Company Law and Law on Cooperatively Managed Enterprises, on which drafting and deliberating is now being speeded up. The most significant law of this structural level is the Law on Chinese-Foreign Joint Ventures, promulgated in July of 1979. This law provided the important guiding principle for the legislative work on the other two structural levels. The laws of the third administrative level are characterized by the general scope of their application and by their guidance nature; they are the base for the legislation of the other two levels. The third level is, therefore, the foundation for the entire Chinese domestic legislation on foreign investments.

The three levels in China's domestic system of foreign investment laws can be differentiated according to the following three criteria: first, the difference of legislative organizations, differentiating here by local governments, central government and the NPC; second, differentiating according to the different scope of application of the laws, that is, whether the laws are of local nature or of nationwide nature; third, the difference in the significance of the laws, differentiating here those of specific applications and those of guidance character. The occurrence of the three levels is linked with China's political structure and the actual demands for

the absorption of foreign capital. Each legal level plays its particular important role, but all together form a harmonious union and for this reason constitute a comparatively perfect system of Chinese domestic legislation on foreign investments.

IV. Treaty Law

We can roughly divide China's treaty law on foreign investments into three groups: one, China's agreements with foreign countries for mutual promotion and protection of investments; two, China's agreements with foreign countries regarding taxation; three, other agreements signed between China and other countries with some bearing on foreign investments. These three types of treaty law are also mutually linked; they constitute another important component of China's system of foreign investment law.

(1) Agreements Mutually Promoting and Protecting Investments

In international practice, the conclusion of treaties for the mutual promotion and protection of investments has had only a short history of more or less 25 years, but is now a general practice throughout the world. (11) Especially since 1967 when the UN Economic Cooperation and Development Organization drew up standard agreements for the mutual promotion and protection of investments, more countries were willing to provide investment protection through treaties. Since China instituted the open-door policy and speeded up legislation on foreign investments, China, too, actively negotiated and signed treaties with those countries which were the main investors for a series of investment protection treaties. Up to November 1984, China signed this type of agreement with Sweden, Romania, the FRG, Belgium, France, Canada, the Soviet Union, and Norway. (12)

Actually, China's first agreement involving protection of investments was signed with the government of the United States on 7 October 1980: the Agreement on Investment Insurance and Investment Guarantees as Encouragement to Investments, effective with the exchange of notes on 30 October. By this agreement, China undertakes to protect all American investments in China that have had the approval of the Chinese Government and, furthermore, regulates the remittance of profits from American investments, the settlement of disputes, and other such questions. However, this investment agreement has a special feature, not found in the general investment protection agreements, in that its main purpose is to allow the American Overseas Private Investment Corporation (OPIC) to provide investment insurance and investment guarantees for projects or activities carried out or participated in by America with the approval of the Chinese government, as an encouragement for more private American investments in China. Since this was the first foreign investment agreement concluded by China, it provided China with experiences for future foreign investment treaties and laid the foundation for the Chinese-American investment protection agreement which is now under negotiation.

The agreements signed by China with other countries on the promotion and mutual protection of investments are not much different from this type of agreement now internationally in common practice. They generally contain the following provisions: 1. Definitions; 2. Treatment of investments; 3.

Transfer of gains from investments; 4. Methods of settling disputes. In the following, I shall take the Chinese investment protection agreement with the FRG as example, (13) to demonstrate in detail the various aspects of such an agreement. In defining the term "investment," the agreement refers to all lawful property, which includes property rights to movable and immovable property and other rights over things, and also includes company shares, monetary claims convertible into economic values or rights to demand actions of economic value, copyrights, industrial property, trademarks, and every kind of patent right. In defining the term "investor," the agreement generally refers to juristic and natural persons of the nationality of the contracting countries. The agreement defines the term "gains" as the profits, dividends, interests or other lawful income accruing during a certain period of time. Articles 2, 3, 4 and 8 deal with the treatment of investments, the basic principle being that each contracting country must under all circumstances afford equitable and rational treatment to the investments within its territory by the other signatory country. (Article 2) The agreement also contains the most-favored-nation clause. Article 4 contains provisions on compensation in case of nationalization and regarding foreign investments incurring losses due to one country being involved in war or declaring a state of emergency. The third aspect, the transfer of gains and remittances, is dealt with in Articles 5, 6 and 7, where the foreign investor is given a comparatively large measure of freedom. Finally, there are provisions for the settlement of disputes. The said agreement provides that in case of a dispute, the contracting countries should as far as possible arrive at a negotiated settlement. If settlement is not achieved within 6 months, each of the contracting countries can demand arbitration. The agreement contains clear and definite provisions on the constitution of the arbitration tribunal, on the effect of the arbitration award and on the responsibility for the arbitration expenses.

In studying these investment protection treaties signed between China and other countries, there is one question that deserves our special attention, namely the "reciprocity" of these treaties. At the present stage, China is still a capital-importing country, and China's investments abroad are only of a very limited amount compared with foreign investments in China. However, in all investment protection treaties the protection provided to foreign investments must be reciprocal, meaning that each contracting party must provide reciprocal protection to investments in its territory by the other party. It is for this reason that treaties of this kind signed by China are generally called "agreements for the promotion and mutual protection of investments." They apply not only to investments in China by the other contracting country, but also to Chinese investments in the territories of the other contracting countries. However, while emphasizing the principle of reciprocity, more importance attaches to the protective role of these investment protection agreements for all foreign investments on Chinese territory, since China is presently in the position of a capital-importing country.

(2) Agreements on Taxation and Other Agreements Involving Foreign Investments

The question of taxation is a very important question in the Western economic system. It has a direct bearing on the profits gained by anyone engaged in

any kind of economic activity. Legal provisions on taxation are, therefore, a matter of greatest concern to those either operating or employed in business operations. There are now a large number of investment projects, Chinese-foreign joint ventures and foreign employees in China, and since 1980 China has gradually built up a tax law system concerning foreign investments. However, since the foreign enterprises, branches of foreign enterprises and foreign individuals working in China are also subject to the laws of their own countries, conflicts may arise between the Chinese and the foreign tax laws. These may result in two irrational situations, one being double taxation, i.e. being taxed by Chinese as well as by the relevant foreign tax law. The other is tax evasion, i.e. a certain investment or person should be taxed, but evades taxation because of the foreign element in the legal facts. This kind of conflict of laws can generally be solved in two ways: one is to select one law according to the rules of conflict of law in one country, i.e. to regulate these cases according to the methods of private international law; the other method is to conclude treaties and regulate these cases by one uniform standard. The second method has many advantages over the first method. It is easier to apply, easier for the parties to understand and manage, and, what is even more important, it can bring about a comparatively more thorough solution to questions of conflict of law and, furthermore, achieve uniform results. It has therefore become general international practice to solve conflicts of tax laws related to foreign investments by bilateral treaties.

China has concluded agreements for the prevention of double taxation, tax fraud and tax evasion with Japan, the United States, Great Britain, France and other countries. Since tax laws are complex, different rules apply to different situations, and since many technical questions become involved, the texts of these treaties are in general also very complex.

Agreements for the prevention of double taxation, tax fraud and tax evasion are important supplements to China's domestic tax legislation, as they also form an important component of China's treaty law concerning foreign investments. Not only do they ensure application of Chinese domestic tax legislation to foreign investments and foreign personnel, but also round out China's treaty law. Because the tax problem is an important problem of direct concern to foreign investors, and since double taxation is what foreign investors are most concerned about, the way China resolved the problem in a rational manner by concluding treaties that protect the lawful interests of the foreign investors will also reassure their confidence in investments and encourage many more foreign investors to invest in China.

The Chinese government has concluded many other agreements that have a bearing on foreign investments. These agreements do not deal entirely with foreign investments, but their subject matter has a direct or indirect bearing on foreign investments, or certain of their articles directly or indirectly have a bearing on foreign investments. There is a large number of such agreements, including many trade agreements signed by the Chinese Government with foreign countries, as well as agreements for economic cooperation, agreements for the transfer of technologies, etc. For instance, the China-United States Industrial and Technological Cooperation Agreement, signed in Washington on 12 January 1984, is of this nature. Article 3 of this agreement specifically provides for broad industrial and technological cooperation between the

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China Report

ECONOMIC AFFAIRS



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NATIONAL POLICY AND ISSUES

DISCUSSION OF ECONOMIC REFORM, ECONOMIC LAW

Wuhan WUHAN DAXUE XUEBAO [JOURNAL OF THE WUHAN UNIVERSITY] in Chinese No 4, 1985 pp 27-32

[Article by Luo Mingda [5012 2494 6671]: "On the Reform of the Economic System and Economic Law"]

[Text] The Resolution of the CPC Central Committee on the Reform of the Economic System (hereafter, for short, "the Resolution"), adopted at the 3d Plenum of the 12th CPC Central Committee, points out: "The reform of our economic system and the development of our national economy require that more and more of our standards and principles of economic relations and economic activities be consolidated in legal form. The legislative organs of the state must speed up economic legislation, the law courts must speed up adjudication of economic cases, the procuratorates must speed up the investigation of economic crimes, and the judicial departments must energetically provide legal service for the benefit of the economic construction." This resolution of the Central Committee amply signifies the extremely close relationship between the reform of the economic system and economic law, and the extremely important place and role that economic law occupies in the reform of the economic system. It is therefore necessary to start a discussions on the topic of economic reform and economic law, combined with the present reform practice, a necessity for the promotion of smooth progress in the reform and for its healthy development as well as for the perfection of our economic law itself.

1. Liberation of the Social Productive Forces, the Essence of the Reform of Our Economic System

The reform of the entire economic system, with the main focus on the cities and with its core link being the strengthening of vitality in our enterprises, that we are presently carrying out is "a reform, conducted on the premise of firmly upholding the socialist system, of the whole series of mutually interrelated linkages and aspects in our production relations and in the superstructure, which we find inconsistent with the development of our productive forces." It is an intensification and development of all the various reforms in town and countryside since the 3d Plenum of the 11th CPC Central Committee. It is another broad and deeply penetrating revolution under the leadership of the CPC, carried out by the Chinese people of all nationalities. The essence of this revolution is the liberation of China's

productive forces from the fetters of the present economic system and allowing them to develop and progress with greater speed, greater effectiveness and an abundance of vitality.

The term "economic system" is the collective name for all the various specific systems of the social economic structure and the state's economic controls; it is the concrete reflection and manifestation of certain production relations. According to the fundamental principles of Marxism stating that the production relations must be consonant with the nature of the productive forces and that the superstructure must be consonant with the economic foundation, the economic system of a country must be conditioned by the developmental level of its social productive forces and any other of its national conditions. The economic system that fits the country's developmental level of social productive forces and is consonant with the country's national conditions will have the effect of promoting the development of the productive forces; in the opposite case, it will obstruct and hinder the development of the productive forces.

China's present economic system, established in the early years after the founding of the PRC in emulation of the Soviet economic system of those days, and later gradually developed under the influence of an erroneous "Leftist" guiding ideology, is a highly centralized, unitarian economic system. Under this type of economic system, enterprises actually become appendages of the state's administrative organs. All economic activity has to follow the baton of the administrative organ, while the enterprises lack all the self-determination that should be theirs in matters of production and business operations. The inevitable result was a fusion of governmental administrative and enterprise business functions, a divisiveness between central and local authorities, the phenomenon of "all helping themselves from the public pot," a situation which seriously hampered production and business enthusiasm in the enterprises and among the broad masses of staff and workers, strangled all vitality in the socialist economy and fettered the development of the social productive forces.

As to the sources of its ideology, the present economic system with its excessive centralization is closely linked with the immutably fixed concept of an absolute nature of the socialist planned economy, a concept that does not recognize or does not fundamentally recognize the historical necessity of developing commodity economy during the socialist stage. In other words, this "Leftist" immutably fixed concept is the theoretical foundation of our present highly centralized economic system. It is precisely because of this "Leftist" immutably fixed concept that people regard planned economy and commodity economy as antagonistic opposites. The commodity production and commodity exchanges that objectively exist during the socialist stage are erroneously regarded as something that "has to be restrained under the proletarian dictatorship," and that must not be allowed to develop, otherwise it would lead to "revisionism" or "capitalism." It must be pointed out that this "Leftist" immutably fixed concept, which is divorced from reality, and the economic system that formed and developed under the guidance of this concept is not consonant with the realities of the socialist stage, is divorced from the present developmental level of China's productive forces and is not in harmony with China's national condition.

The practice of socialist construction has proven that since production has not yet developed to a high degree and social products are not yet available in abundance, the ownership system in the socialist stage not only maintains the two forms of public ownership, namely ownership by the whole people and ownership by the collectives of the masses, but also preserves individual economy and other economic patterns as complements to the public ownership economy of socialism. Between all economic entities, social organizations and the broad masses of workers, there still exist, in addition to the community of basic interests, the special individual interests of each group, and the exchanges of labor between them can only take place on the principle of mutual exchanges of equal labor. The existence and development of commodity economy throughout the entire historical stage of socialism is therefore inevitable. Maintaining an accurate view of the objective reality and proceeding on the only way that history prescribes will lead to the development of production and prosperity of all undertakings. In the opposite case, one will have to suffer the penalties of the objective law. This is the way of historical dialectics.

A great contribution in theory and practice made by the 3d Plenum of the 12th CPC Central Committee was its scientific summing up of the historical experiences of socialist construction and its recognition, based on an integration of the cardinal principles of Marxism with the Chinese reality, that socialist economy "is a commodity economy on the foundation of a public ownership system," thus providing a firm theoretical foundation for the reform of the entire economic system with its main focus on the cities. The task that we are now faced with is to have to take this theory as our guideline in resolutely breaking down the fetters of the leftist erroneous guiding ideology and of other outworn concepts. We must thoroughly reform the present economic system that has for a long time restrained the development of China's social productive forces and must start out from the realities of China's condition in going our own road to build up a socialist economic system with Chinese characteristics, filled with an abundance of vitality, to promote the development of our social productive forces.

2. Economic Law, an Important Legal Weapon That Guarantees the Smooth Realization of the Reform of Our Economic System

The reform of the economic system is a deeply penetrating social revolution for the liberation of productive forces. Our complete victory in this revolution is decisive for the fundamental turn for the better in the country's finances and economy, for the realization of the struggle objective set by the 12th CPC Central Committee, namely of quadrupling the gross industrial and agricultural output value by the end of this century, as it is equally important for building China into a modern, strong socialist state with a high degree of material and spiritual civilization. The reform is therefore presently the principal concern of the entire party and all the people of the nation, as it is the country's overall great affair. All other work must directly or indirectly serve this objective and submit to its test as to whether any such other work is to be pursued or not. Economic law, which regulates the economic relations, is an important sector of our socialist legal system; it is an important tool used by the state to guide, organize and

control the national economy. Because it is so much closer to the basic economic relations, it is so much more sensitive in its reactions to developments and changes in the economic foundation, and more substantial and forceful in its impact on the foundation. Its special function and mission is therefore to safeguard the smooth progress and healthy development of the reform and to provide the legal weapon for the realization of the reform objectives.

(1) Economic law is legal assurance for the mobilization and organization of the people to devote themselves to the practices of the reform.

The reform of China's economic structure conforms to the demands of the historical development of society, is consonant with the objective economic law and manifests the interests and aspirations of the people. This is why the reform is warmly endorsed and supported by the masses. However, due to the long-term influence of an erroneous "Leftist" guiding ideology and the many policy changes, to which must also be added the occasional wilful encroachment on the citizens' activities of gaining prosperity through work, the people generally hope for the state to consolidate in law its policy of reform, of opening up and of invigorating the economy, so that their lawful interests will receive the recognition and protection of the law. This state of mind among the people, namely of having more faith in law than in policies, reflects a lingering fear of the "Leftist" errors of the past. However, it also explains that economic law, providing affirmative, clear, definite and generally applicable norms, is indeed highly effective in reassuring, mobilizing and organizing the masses to devote themselves to the practices of the reform.

(2) Economic law is to straighten out whatever improper economic relations come to light during the reform as requiring adjustments, and economic law is also an important legal weapon to remove all interferences and obstructions.

During the reform of the economic system, following the separation of government administration and enterprise management and the broadening of self-determination for the enterprises, the lateral economic relations continuously increased and economic intercourse rapidly blossomed forth. This is evidence for the fact that the nation's economy recovered its vitality, and is the inevitable result of the reform. However, since the reform is a deeply penetrating revolution, it is unavoidable that encroachments and obstructions of various kinds should also occur. Conspicuous instances of such are the cases in the earlier stages when economic organizations or citizens took advantage of the reform to commit violations of the state's plan and laws, to conduct improper competition, to arbitrarily raise prices, to indiscriminately issue bonuses or materials, and when some party or government organs used the powers of office to run enterprises for personal gain, etc. It is for this reason that economic law, through its regulation of economic relations, moves the reform on to the track of the socialist legal system and provides a powerful protection for all those economic relations and economic activities that conform to the demands of the reform and are capable of promoting the development of the productive forces. It will resolutely suppress and mete out punishment if economic relations and economic activities run counter to the purpose of the reform, interfere with the progress of the reform and

obstruct the development of the productive forces. In this manner economic law becomes the important legal weapon for the regulation of the various economic relations that surface in the course of the reform, for promoting the smooth progress of the reform and to ensure the realization of the reform objectives.

(3) Economic law is an important tool for the strengthening and perfecting of party and government guidance in the reform of the economic system.

The reform of the economic system is a social transformation of broad and deeply penetrating dimensions and of an extremely complex nature, as it is also a grand exploratory and innovative undertaking of mass character, as has never before been carried out. For our complete victory in this reform, it is necessary to strengthen and perfect party and government leadership throughout the entire reform, "change the method of solely relying on administrative measures to control the economy, integrate economic and administrative measures, pay attention to the use of economic levers and to control the economy by means of economic laws." (Footnote 1) Economic laws are party and state economic policies rendered concrete and textually visible in identifiable form as norms. The current economic laws are the overall party and state guidelines for the reform, for the opening up of the country and for the invigoration of the economy, formulated from different viewpoints and dealing with different aspects, possessed of the common characteristics of stability, authoritativeness and general applicability. Using economic law in leading the reform will assist the party and the government in giving meticulous guidance and powerful direction to the reform, will ensure that the entire reform progresses in a planned manner, step by step and in good order, and that victory will be gained with zealous, yet also reliable and safe action.

As a great revolutionary practice, the economic reform possesses an extremely high degree of authoritativeness. If economic law is to fulfill all its functions in the service of the reform of the economic system, it must accurately reflect the objective economic law and give expression to the objective demands of the reform. It has therefore become an urgent task in China's present efforts to build up its legal system, to direct strong efforts toward the building up of its economic laws, based on the demands of the reform of the economic system.

3. Speeding up economic legislation, a pressing demand of the reform.

Just as there have been great achievements in the building up of China's entire socialist legal system since the 3d Plenum of the CPC Central Committee, great achievements have also been made in China's economic legislation. During this period of time, the state formulated and promulgated over 30 economic laws and other documents of important normative nature, regulating economic relations. The documents of normative nature, such as regulations, rules and resolutions, issued by the State Council and its subordinate ministries and commissions number more than 300. These agencies, furthermore, compiled a Plan for 1982 to 1986 Economic Legislation. According to a resolution by the State Council, all state organs at whatever level are in the last few years sorting out, comprehensively, all laws and regulations

issued since the establishment of the PRC. Following the 3d Plenum of the 12th CPC Central Committee, the state's legislative organs, according to the "Resolution" of the Central Committee, accelerated the work of economic legislation and again drafted, formulated and promulgated a number of important economic laws. The Third Session of the Sixth NPC deliberated and passed a Resolution on Granting Authority to the State Council To Issue Provisional Regulations or Rules Regarding the Reform of the Economic System and the Opening Up Toward the Outside World. All the above-mentioned laws, regulations and measures have played a very important role in promoting and safeguarding the reform of the entire economic system with its special focus on the cities.

However, we must also realize that due to such factors as the influence of the erroneous "Leftist" ideology, the poor foundation on which China's legal system is being built and the low level from which this buildup starts out, also due to the fact that many current individual economic laws lack normative nature or are of low normative nature, and, furthermore, due to the rapid developments in the state of the reform, economic legislative work can still not yet satisfy all the needs of the reform. In the present social and economic life, the problem of "no law to follow" has not yet been radically solved. It still occasionally happens that the masses speak of conditions that are "rational but not legal" or that are "legal but not rational." Acceleration of economic legislation, therefore, still remains the core link in the building of the legal system, otherwise it will not be possible for economic law to be highly effective in its service to the reform.

How to accelerate economic legislation? I believe the following has to be done, energetically and emphatically:

(1) We must one step further clarify the guiding ideology of economic legislation.

The guiding ideology of legislation is what in jurisprudence is called the legislative motivation or legislative intention. It demands a reply from the legislator to the questions why to legislate and what to legislate, what social effect is to be achieved by the legislation, etc. These questions seem like an ideological line that permeates all the articles of every law; they determine the character of each law, its task, purpose and direction and are the most important and most fundamental questions in all legislative work.

Following the 3d Plenum of the 11th CPC Central Committee and through their efforts to bring order out of chaos, the party and the state restored the Marxist ideological line, political line and organizational line, while the focus of work was shifted to economic construction, and the work of socialist modernization was acknowledged by the constitution as the fundamental task of the whole nation. In the last few years, the guiding ideology in our economic legislation was, therefore, generally speaking, a correct one, displaying the spirit of the constitution and consonant with the demands of the reform while also beneficial for the promotion of the development of the productive forces. However, investigating the situation according to practical standards, there are still certain questions that require further clarification, or that must be straightened out one step further. First, some of the current economic

laws and regulations still show a tendency to regard planned economy as something absolute and give insufficient attention to the promotion of the development of the socialist commodity economy. They thereby lose, altogether or partly, their effectiveness in the reform as to the regulation of economic relations and thereby also adversely influence their own relative stability. Second, some departments or localities draft state or local economic laws and regulations without giving full consideration to the situation as a whole, some even go so far as to seek to extend their departmental or territorial powers by means of drafting certain laws and regulations. These problems on the one hand reflect the fact that we have not yet thoroughly discarded the fetters of the erroneous "Leftist" guiding ideology or of other outworn concepts, and that our thinking has not yet been fully liberated. On the other hand it also reflects the fact that certain departments or localities are influenced by unhealthy tendencies and still tend to use the powers of office for personal gains.

The "Resolution" of the Central Committee points out: "The fundamental task of socialism is to develop the social productive forces, that is, to enable more and more social wealth to be brought forth, and to continuously satisfy the daily growing material and cultural needs of the people." Economic law is precisely promoting the development of the social productive forces by means of regulating the economic relations. Those working in economic legislative work must therefore firmly espouse the ideology of bringing about legislation that will promote the development of the social productive forces and that will promote the socialist modernization projects. They must use the ideology as the most important criterion to test their own legislative guiding ideology as to whether it is clear, definite and correct. If it should not be thus, our economic legislative work will lose direction, central substance and soul.

(2) Planning all economic legislation must start out from the idea of an accurate coordination of the relationship between an enlivened microeconomy and macroeconomic control.

The core link of the reform of our economic system with special focus on the cities is the effort to strengthen the vitality of our enterprises and invigoration of the microeconomy. However, it is not possible to separate invigoration of the microeconomy from macroeconomic control. Without an enlivened microeconomy, it is of course out of the question to speak of macroeconomic control. In the opposite case, without macroeconomic control, microeconomic invigoration would lose its direction and objective and in the end fail in its purpose. Economic legislation must therefore accurately reflect this inherent relationship of dialectic unity. Whether in our concepts and plans for our entire legislative work, or in the drafting and formulating of a particular piece of legislation, we must always pay attention to coordinate the two accurately to avoid control being lost due to the one-sidedness of legislation macroeconomic or microeconomic endeavors ending in failure.

We must affirm that under the conditions of socialism in China, due to the community of interests between state, collectives and individuals and the community of interests between the situation as a whole and its parts, also between the immediate and the remotely future interests, economic legislation

not only must, but actually can accurately coordinate microeconomic invigoration and macroeconomic control, ensuring that the national economy will harmoniously develop in a vigorous way without becoming chaotic. As far as legislative work is concerned, the focus of present attention is still on invigorating the microeconomy and energetically developing socialist commodity economy. Invigorating must be carried out solidly and not only in empty words. In the preceding period, some economic organizations, to enable themselves to issue bonuses and materials indiscriminately, indulged in boasting and exaggerating and created only a false image invigorating the economy, while no enterprise was in reality being truly invigorated. According to the provisions in the Central Committee's "Resolution," the criterion for the determination whether an enterprise is truly invigorated should be whether its production has been developed and whether its performance has been improved. The concept and plan in economic legislation must focus on urging the leadership and the masses of staff and workers to apply great skill on economizing in live labor and materialized labor and show themselves truly capable in this respect. We must urge people to achieve high results by starting out from improving enterprise business management, from exploiting potential, renovating, transforming and from the development of intelligence, and not to start out from doing harm to the interests of the state and the consumers and in that way get "results." In summary, coordinating the relationship between invigorating the microeconomy and macroeconomic control is at present an important problem that must be solved in economic legislative work.

(3) We must accelerate local economic legislation on the premise of not conflicting with provisions of the constitution, laws and administrative regulations.

Comrade Deng Xiaoping pointed out as early as in 1978: "We have presently a large volume of legislative work and we are short of manpower. Our laws may therefore first be rather roughly worded, they may later be gradually perfected. Some regulations may be first tried out by localities, to be later, after summing up experiences and improving the regulations, formulated into laws that are to be enforced throughout the country." (2)

In the present reform of the entire economic system with primary focus on the cities, the first important step has been taken. In the course of the reform, many new questions will require prompt decisions which will have to have legal force. Among such questions, those for which legislative conditions have matured, the state's legislative organ may promptly draw up laws. Those that belong in the sphere of administrative norms should be handled by the State Council, which should draw up administrative laws and regulations. In addition, many new complex questions, beyond the sphere that should be regulated by administrative laws and regulations, we still lack practical experiences to solve. These require further exploration and trials, and the state's legislative organs should draw up new or supplemental provisions. In those cases where conditions are not yet ripe for amendments, action should be taken according to the "Resolution on Delegating Authority," deliberated and passed at the Third Session of the Sixth NPC. The State Council should then draw up flexible and adaptable provisional regulations or provisional statutes.

Due to the vast territory and huge population of China, extreme differences exist in the economic conditions and level of development of different localities. In order to start out from the actual conditions, the reform must be carried out in conformity with local conditions. Local legislative organs must observe the provisions of the constitution in speedily determining their economic laws and regulations of local nature. Presently, we do not have too many economic laws and regulations of a local nature; they are in fact most inadequate, and not at all in harmony with the developments of economic legislation for the entire country. We must realize that without proper coordination between local economic legislation and such legislation for the entire country, it will be impossible to practically implement the economic laws promulgated by the state, which will have an adverse effect on the efforts of the state to establish a perfect legal system for the whole country.

To strengthen local economic legislation, we must first demand that the local leadership at all levels strengthen their concept of the legal system, raise their own consciousness of law and overcome the attitude of merely following "the will of the boss." Second, we must provide local legislative personnel and raise the quality of their knowledge of economic law and the level of professional ability. Finally, the local economic legislation must form a complete system with the national economic legislation; it must be in line with and of service to the national legislation.. At the same time, economic laws and regulations of a local nature must not conflict with the provisions of the constitution, of pertinent laws, of administrative laws and regulations or with the provisional rules and regulations determined according to the "Resolution on Delegating Authority." Local legislation must also be limited to sectional reform questions within the jurisdiction of the locality in question. If the matter concerns the execution of important reforms of nationwide character, it is the State Council that must effect a uniform disposition. Reforms that have a bearing on the overall situation or affect a broad sphere can only be put into effect after approval by the State Council.

(4) We must integrate this work with the overall cleanup of all laws and regulations issued since the establishment of the PRC and conscientiously do a good job of compiling a compendium of current economic laws and regulations to have them gradually form a complete system.

According to the resolution of the State Council, the central and local state organs are now carrying out a cleanup of all laws and regulations issued since the establishment of the PRC. On the foundation of this work, the state's legislative organs must do a good job of compiling and straightening out the currently valid economic laws and regulations. Those that do not more meet the demands of the reform and of the modernization drive must be revoked in proper legislative procedure. Those that are mutually contradictory must also be readjusted in proper legislative procedure. Where blanks exist, a record should be made in the plan for economic legislation, and action should be taken to fill the gaps, step by step, according to the principle of giving preference to the more important and urgent legislation. Through compilations and adjustments, China's economic laws and regulations shall gradually be

shaped into a uniform entity, internally well linked together, to have them observed and implemented by the judicial organs and the entire people.

(5) Close attention must be paid to the scientific nature and feasibility of economic laws and regulations.

Economic legislation is scientific work of greatest gravity. Under no circumstances must it be undertaken carelessly or perfunctorily. Each law or regulation that is to be enacted must have been investigated and studied by an experimental unit. We must possess a large and reliable corpus of legislative data and in addition institute comprehensive scientific deliberations, to get to the state that every new law or regulation will be consonant with reality and science and will be feasible. Only if we recognize that an article is up to standards should we enact that article, but never feel forced to enact an article that we feel is not up to standards; otherwise, no matter how many laws we enact and how fast we enact them, they will be useless, or even have the opposite effect to what we intended.

4. Energetic Development of Education in Economic Law and Training of Personnel Proficient in Economic Law

Comrade Deng Xiaoping said in the "Resolution" that "the most important part is Article 9." "Article 9 says, to put it briefly in four words, 'respect knowledge, respect talent'." (3) This important directive by Comrade Deng Xiaoping is also absolutely applicable to the buildup of the economic legal system. There is a saying: "Having merely law without the means to apply it." Even with the best of economic legislative work, if there is not a large contingent of cadres well versed in economic law to implement it, the laws will not by themselves regulate social economic relations and promote the development of productive forces. Worse still, if the problem of economic law personnel is not solved, it will also not be possible to be truly successful in the work of economic legislation. We must realize that after the thorough implementation of the policy of "opening up toward the outside and invigorating the domestic economy" and after the development of our modernization drive, there will be a rapidly increasing demand for economic law personnel. The requirement of enterprises for long-term legal advisors alone will be for not less than 10,000 persons. Economic law as an independent department of law and of jurisprudence has emerged only after the 3d Plenum of the 11th CPC Central Committee. It is only in the last few years that all higher law schools and colleges and colleges of finance and economics throughout the country are starting courses in economic law. To say that there is an extreme shortage of legal personnel is talking about a great weakness in the state's personnel requirements. In this extreme shortage, there is an even more extreme shortage of economic law personnel, a great weakness within a weakness. The energetic development of economic law education and training of economic law specialists has therefore become an outstanding problem in the building of our economic legal system.

In the development of education in economic law, the key is to find persons qualified to teach. Those now engaged in teaching economic law throughout the country number around 200, mostly middle-aged teachers of around 50. We admit that this contingent is quite good. In recent years, these people, working

and living under difficult conditions, have shouldered a heavy work load inside and outside their institutions. They did arduous exploratory work in economic law theory, also participated actively in the state's economic law legislation and made many valuable contributions toward the building up of the economic law system in China. However, in the same way as it is true of the entire contingent of our qualified teachers of law, the problem that exists among the teachers of economic law is that there are too few, their qualifications are weak, and that by age and knowledge they are somewhat outdated. To solve this problem, we must on the one hand vigorously push education and improvement of quality of the present teachers, directing our efforts to a variety of different targets and employing a variety of different patterns, and on the other hand those institutions that have favorable conditions must expand accepting post-graduate students or institute post-graduate courses in economic law, and in this way exert great efforts in training a new force of students to supplement the present contingent of teachers. In this way alone will we be able to provide a solid foundation for China's undertaking of education in economic law.

To develop China's undertaking of economic law education, we furthermore require teaching material that is fairly complete in the treatment of the subject, that has a fresh approach with new breakthroughs and is relatively solid. In the last few years, China has produced several editions of economic law textbooks which have indeed been very effective in meeting the pressing needs of instruction and in fulfilling the instructional task. However, economic law is a new department within jurisprudence that is only now being opened up and is still in the stage of initial development. Furthermore, much material is continuously being added by the reform and by new economic laws and regulations, while some of its older substance has become outdated. For all these reasons, we must now use new material and new research results in supplementing and revising our teaching material. We must bring out textbooks of highest perfection, showing new breakthroughs, new creations and a relative stability. At the same time, the scope of economic law is very broad; it touches on the legal regulation of all the various sectors of the national economy. We must therefore compile sectional economic law textbooks in a planned manner, step by step, gradually combining them into a fairly complete branch of a scientific system. This will be beneficial for the promotion of developments in all branches of the national economy. In compiling teaching material we must conscientiously implement the "hundred schools" policy, allow teaching material to express the ideas of different schools and publish material of different standards, different levels and in different editions. We must not indulge in a uniformity of patterns, editions and tones, so as to benefit the development of economic jurisprudence.

To meet the urgent need for economic law personnel in our modernization drive, we must exert efforts to produce many talents of high quality. In our standards and instructional patterns for the training of talents, we must take our base on the principle of combining popularization with raising quality, and in our instructional pattern adopt a variety of standards and proceed on many levels and in many forms. Well-qualified law institutions and finance and economics colleges may institute special economic law disciplines or special economic law sections, enroll post-graduate students of economic law or institute post-graduate courses in economic law and train specialist in

economic law who will be conversant with law, know foreign languages and have a mastery of modern technology. Generally, institutions that set up economic law courses within the law discipline should make these courses compulsory. At the same time, through training courses or through a pattern of classes run jointly by colleges and actual departments and enterprises, we must carry out the training of economic and judicial personnel presently serving, also of lawyers, notaries public and legal advisors of enterprises, members of legislative bodies, and personnel in administrative charge of economic contracts. In addition, training of economic law personnel could be done through instructions by periodicals, by correspondence or through television universities popularizing economic law knowledge. Regardless of what form of instruction is used, we must in all of them strive for quality and focus attention on raising the quality of knowledge of economic law among our students, and this not only for the purpose of gaining a diploma or a record of formal instruction.

FOOTNOTES

1. Zhao Ziyang, "The Present Economic Situation and Future Policy of Economic Construction," People's Publ. Co., 1981 ed., p 40.
2. "Selected Works of Deng Xiaoping" p 137.
3. Deng Xiaoping, "Building a Socialism With Chinese Characteristics," People's Publ. Co., 1984 ed., p 61.

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ECONOMIC DEVELOPMENT ZONES

TIANJIN REFORMS, OPENING, ECONOMIC GAINS NOTED

Beijing LIAOWANG HAIWAIBAN [OUTLOOK WEEKLY] in Chinese No 9, 3 Mar 86 pp 16-17

[Article: "The Reform and Opening of Tianjin"]

[Text] Tianjin is one of three municipalities under the direct jurisdiction of the Central Committee. As China promotes reform and opens up, what are the present circumstances and trends in Tianjin's economy?

Comprehensive Reforms Have Brought Visible Results

Comprehensive reform of its economic structure has been stressed in Tianjin for more than a year and the effects are already visible:

--Enterprises have been invigorated and there have been notable gains in economic results. In 1985, Tianjin's GVIO reached more than 28 billion yuan, an increase of more than 12.5 percent over the previous year. As to net output value, it is estimated that new product operations accounted for more than 10 percent of output value. The quality of goods has risen steadily and the rate of top-grade products has reached 30 percent; numerous products have received gold and silver quality awards, which puts Tianjin in the front ranks of the nation. The growth in total income from product sales and real profits was higher than the growth rate in output value. Both individual labor productivity for industrial enterprises and local government income increased more than 10 percent over the previous year. After-tax profits for enterprises has been gradually increasing annually, and with the addition of credit assistance financed by the state and by banks, the technological transformation of enterprises has made great strides. In 1984, all together 60 important technological transformation projects were completed in the municipality; the overall investment of 1.16 billion yuan was able to produce an increase in output value of 2.55 billion yuan and increase tax receipts by 740 billion yuan.

--Price reforms are moving ahead smoothly, buying and selling has been brisk and markets have been stable. Beginning in May, 1985, Tianjin Municipality has proceeded with coordinated, integrated price reforms for meat, eggs, fowl, vegetables, aquatic, and other related products. The basic idea behind these reforms is the rationalization of prices, adjustment of supply and demand, stimulation of the flow of goods and markets that are flourishing. In order to prevent a fall in the living standard following an increase in commodity prices, the municipal government will extend a subsidy to each worker and his

family on the price of nonstaple food items and has also adopted a series of measures that will allow state-run commerce to play a leading role in the market and in the leveling of prices. The latest price hike in nonstaple foods was significant, but it did not result in any serious jolt to society because both markets remained basically steady and people stayed calm. Producers are becoming more and more active as sideline agricultural production showed a significant increase. The number of hogs, laying hens, and beef cattle on hand and the volume of aquatic production has either doubled or tripled in growth over the last year. The numerous channels for and methods of business purchases and sales and the unfolding competition between the state, collective, and individual enterprises, and the various other organizations that integrate buying and selling, is mutually complementary, for it is triggering an increase in product variety on markets, a rise in quality, a tendency toward a more balanced supply between high and low seasons and an improvement in service.

--The reform of the wage system is the first step into a new era. The wage system for middle and grade school teachers as well as state agency units will be based on the reform program established by the State Council, which means a switch to a structured wage course. The rather low incomes of both intellectuals and workers for these units will be increased noticeably and steps will be taken to establish as a foundation the principle of tying individual income to work achievements, professional duties, and the division of labor. Enterprise units are universally proceeding with the reform that calls for them to pay their own wages and to draw a portion from their bonus fund and tie it to workers achievements. Because increases in workers wages are tied to the after-tax profits of an enterprise, many poorly administered enterprises have consequently made a great effort to raise economic gains. Since the first stage of the wage structure reforms has been implemented, the cost of living and income of Tianjin residents in 1985 increased more than 20 percent over the previous year and savings deposits for both urban and town dwellers increased by more than 30 percent.

--Macroeconomic controls have been clearly effective. To counter phenomena such as the loss of control over various aspects of the macroeconomy that began to appear in the fourth quarter of 1984, Tianjin has adopted several strong measures to guarantee that the economy develops in a coordinated, stable way. Tianjin's fixed-capital investment scale, bank credit issuance, money supply, consumption funds and local usage of foreign exchange are all under effective control.

--Urban and rural construction are rapidly expanding: the change in the appearance of the city is striking. In the last few years, Tianjin has annually constructed more than 3 million square meters of new housing for urban and town dwellers, which exceeds total amount of new housing constructed during the period 1949 to 1980. In 1985, 250,000 square meters of low-lying, damp housing were transformed and 60 avenues were overhauled. Upon completion 2 years ago of a massive engineering project in water conservancy that brought water from the Luanhe to Tianjin, the history of bitter and salty drinking water for Tianjin residents came to a conclusion in one fell swoop. In 1984 construction of the nation's largest sewage treatment plant was completed; it can process daily 260,000 tons of sewage. In 1985, an

excellent highway that encircles the central district and semicircles the western half was completed; ground has also been broken and labor begun on the semicircling of the eastern half. The crowded traffic and transport conditions have been alleviated. During 100 days in 1984 a food commodity avenue consisting of 100 businesses carrying an assortment of flavorful items was completed and in 1985, ancient culture and international market streets were founded. Also in 1985 a 3-year universalization of availability of gas project got underway. Recently goals were set to universalize the availability of hot water within 5 years and to universalize the availability of heating within 7 years. In outlying counties, villages, and towns, highway and general construction are progressing in leaps and bounds. The first part of the engineering work to restore the ancient great wall at Jixian has been completed and it has already been opened up to foreigners.

In April, 1985, Tianjin established an overall plan for the city; it was decided that Tianjin would be turned into a city with an integrated industrial base possessing advanced technology and a multifaceted economic center with a modern, open international port. The guiding concept behind the general plan for Tianjin's overall arrangement is: "to kill two birds with one stone." The river and the ocean will be the pivot points for the entire city and the old section of the city will be transformed into the city center. Industrial development will be stressed in the eastern section and a major effort will be made to develop the coastal area. Regarding areas surrounding the city, Jixian should be actively developed into a scenic tourist area and satellite towns and cities in the outlying counties should be formed into a network somewhat like planets orbiting their sun. This is a magnificent blueprint to be achieved within a 10-year time frame and should serve to inspire the people of Tianjin to work hard and struggle for an excellent future.

The Open Door Is Progressing Nicely

Tianjin has now taken a first step in opening its doors to the outside, and both the utilization of foreign capital and the attraction of technology have progressed rapidly. Since 1979, Tianjin has signed more than 120 commercial agreements and joint capital ventures with 10 countries, including Japan, the United States, the FRG and Hong Kong. Fifty-one joint capital enterprises are already in operation and more than 80 percent of these signed contracts or began operations in 1985. Total sales for Tianjin's joint capital enterprises have already exceeded 100 million yuan and the profit rate is 24.5 percent; the majority have either balanced their foreign exchange accounts or hold a surplus.

In 1984 the State Council approved Tianjin as 1 of 14 coastal cities open to the outside and to be given priority assistance. A proposal to establish an economic and technological development zone has also been approved. Construction of an initial 3 square km area of the development zone is progressing rapidly and a section is already prepared for construction of plants employing foreign capital. Twenty-one agreements have been signed with foreign businesses and in 1986 20 enterprises will be established and begin operating.

Tianjin is moving quickly to take advantage of broader foreign exchange privileges to attract advanced foreign technology for the transformation of older industries; project standards and the effectiveness of operations have shown a marked improvement in comparison to a few years ago. Since Tianjin harbor instituted the new system of "dual leadership with localities as the leaders" in June, 1984, economic indicators have all attained record levels.

1986: Consolidation, Assimilation, and Enhancement

There are still several problems relating to Tianjin's reforms and economic development that require solutions. For example, economic gains are still short of ideal, methods of market management and supervision are still rather imperfect, production sources for exports are still deficient and the value of exports departing from Tianjin's port still has not reached optimal levels, etc. These problems necessitate continued research for solutions.

Looking a couple of years ahead at the reforms and opening of Tianjin, in general the thinking is: Things should neither speed along too quickly, nor grind to a halt, and by all means there cannot be a retreat. Furthermore, the achievements of the last few years and especially those resulting from the reforms of 1985 must be consolidated and assimilated, and there must be a realistic assessment of the guiding philosophy behind the reforms; that is, expanded privileges, simplified government control, stimulation of the micro-economy and the need to preserve the beneficial and eliminate the harmful. In order to enhance macroeconomic controls and to further liberalization and invigoration, Tianjin must correspondingly set up and perfect its markets, which includes striving to expand consumer product markets, developing production resources and money markets; at the same time it must bolster economic laws and supervision and gradually reform the economic management structure.

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AGGREGATE ECONOMIC DATA

FUJIAN 1985 ECONOMIC STATISTICS COMMUNIQUE

OW280201 Fuzhou FUJIAN RIBAO in Chinese 9 May 86 p 2

[Communique by the Fujian Provincial Statistical Bureau on the statistics of the province's 1985 economic and social development]

[Text] Under the leadership of the Fujian Provincial CPC Committee and the provincial government, people in the province further implemented the policies of invigorating the domestic economy and opening to the outside world, continued to carry out special policies and flexible measures, and deepened reform of the economic structure in 1985, thus bringing about a sustained, stable, and coordinated development of the economy. Total product of society (Note 1: Total product of society is the total sum of agricultural, industrial, building industrial, transport, postal, telecommunications, and commercial [including the material supply, marketing and catering trades] output value. National income is the total sum of the net value of the above) for 1985 was 34.35 billion yuan, a 19.2 percent increase over 1984. Of this, total industrial and agricultural output value was 27.218 billion yuan (Note 2: Total industrial and agricultural output value was 23.622 billion yuan, calculated at the constant prices of 1980), an increase of 19.8 percent over the previous year; and national income was 16.027 billion yuan, representing a 14.4 percent rise. On the basis of developed production, both buying and selling on the market were brisk, revenue and expenditure were balanced, and the incomes of people in urban and rural areas continually increased. The main problems existing in the province's economy are: The economic foundation is relatively weak, there is a strain on the supply of energy and raw and semi-finished materials and on transport and communications, and economic results are not ideal.

1. Agriculture

In 1985, the second stage of reform was carried out in depth in the rural areas, agricultural products were purchased by contract, and the structure of rural production was readjusted. As a result, the rural economy has been invigorated. Total product of rural society (Note 3: Total product of rural society embraces agricultural output value under public, collective, or individual ownership; the output value of village and town industries and of industries owned by individuals; and the output value of the building industry, transport and communications services, commerce, and

the catering trade. Its growth rate was calculated at the prices of the year, without taking raised prices into account. For 1985 it was 15.844 billion yuan, a 28.3 percent increase over 1984. Of this, the proportion of rural industrial, building industrial, commercial, and transport output value increased from 34.7 percent to 37.5 percent in 1985.

Total agricultural output value (including village industries) was 12.359 yuan in 1985, an increase of 17.2 percent over the previous year. This growth rate was higher than planned. Forestry, animal husbandry, sideline production, and fishery were further strengthened. The proportion of forestry, animal husbandry, sideline production, and fishery in total agricultural output value increased from 54.4 percent in 1984 to 59.4 percent in 1985. After deducting the output value of village industries, total agricultural output value was 9.905 billion yuan, an 8.4 percent increase over the previous year.

The cropping structure was considerably readjusted. The acreage sown to grain crops was 129,000 hectares less than in the previous year. In addition, natural disasters occurred in the province, and people in some places also relaxed their efforts at grain production. Total grain output was 7,944,000 metric tons, 559,000 metric tons less than in the previous year or a 6.6 percent decrease. All cash crops, except rapeseed, increased by a big margin.

The output of major farm products was as follows:

	1985	increase over 1984 [percent]
Grain	7,944,000 tons	-6.6
of which:		
Rice	6,811,000 tons	-6.8
Wheat	216,400 tons	-12.0
Tuber Crops	805,100 tons	-3.5
Oil-bearing Crops	173,900 tons	9.8
of which:		
Peanuts	163,400 tons	10.9
Rapeseed	9,500 tons	-6.1
Sugarcane	5,366,700 tons	13.4
Jute, Ambary Hemp	15,600 tons	96.9
Cured Tobacco	34,000 tons	39.0
Tea	40,500 tons	14.9
Fruit	494 100 tons	21.9

The further implementation of the forestry policy further enhanced the masses' enthusiasm for forestry production. Forested areas in the province covered 282,800 hectares. Output of major forestry products topped that of 1984. Output of tea-oil seeds was 3.27 tons, an increase of 38.4 percent over 1984.

Animal husbandry continued to develop. Increases were registered in the output of pork, beef, mutton, milk, poultry, and eggs, as well as in the numbers of pigs and cattle at the end of the year.

Output of major animal by-products and numbers of livestock was as follows:

	1985	Increase over 1984 [percent]
Output of pork, beef and mutton	441,800 tons	17.6
of which:		
Pork	434,800 tons	17.6
Milk	41,700 tons	17.8
Hogs slaughtered	5,780,900 head	12.2
Pigs in stock at year-end	8,368,100 head	7.3
Cattle in stock at year-end	1,184,200 head	3.1
Sheep and goats in stock at year-end	611,000 head	-2.5

Fish production continued to grow. The output of aquatic products was 760,000 tons, up 14.3 percent from 1984. Of this, the total catch of marine products was 711,800 tons, up 12.6 percent, while that of freshwater products was 48,000 tons, an increase of 46.1 percent. Of the total output of aquatic products, production of aquaculture was 243,200 tons, up 19.2 percent.

Farm machinery and rural electric power continued to increase. At the end of 1985 the aggregate power capacity of Fujian's farm machines had reached 5,096,500 horsepower, an 8.8 percent increase over 1984. The number of small tractors and walking tractors was 99,900, an increase of 11.1 percent over 1984; trucks, 7,400, an increase of 28.6 percent. The total consumption of electricity in rural areas was 1.124 billion kwh, an increase of 25.9 percent over 1984.

The province's meteorological departments improved their weather forecast work and made new contributions to agricultural production and production in other fields. Their good work also reduced losses to agricultural production caused by natural disasters.

However, the province's cultivated acreage decreased in 1985, and its irrigation facilities continued to deteriorate. Therefore, it is necessary to upgrade the province's capability to overcome natural disasters.

2. Industry

Industry continued to develop in 1985, amidst reform and opening to the outside world. Enterprises increased their vitality, light and heavy industries moved ahead fairly rapidly, there was a substantial increase in the output of readily marketable products, and economic results also rose.

The province's total industrial output value for 1985 was 14.895 billion yuan, an increase of 21.6 percent over 1984 -- a pace that exceeded the planned growth target of 10.6 percent. When added to the output value of rural industry run by villages and units lower than the village level, the total figure would be 17.313 billion yuan, a 25.4 percent increase over 1984. Of the total, the output value of state-owned industry increased 14.9 percent over the previous year, collectively owned industry grew by 29.9 percent, privately owned industry expanded its output value by 290 percent, and industry of other kinds of ownership rose by 50.1 percent. The output of 55 of the 72 major industrial products met or topped state plans, accounting for 76.4 percent. Seventeen industrial products failed to meet their 1985 planned quotas, including sulfuric acid, phosphate fertilizer, chemical insecticides, rosin, microcomputers, and crude salt.

The total light industrial output value in 1985 was 8.834 billion yuan, an increase of 20.9 percent over the previous year. The relatively rapid increase of high-grade, medium-grade, famous brand, and fine quality products contributed to improving the supply situation on the market. The variety in color and design of light industrial products continued to increase. Products that sold well on the market increased by relatively large margins.

The output of major light industrial products was as follows:

	1985	Increase over (percent)
sugar	479,400 tons	39.7
canned food	133,300 tons	23.2
cigarettes	462,700 cases	17.8
beer	46,900 tons	78.3
crude salt	780,000 tons	-12.6
machine-made paper and cardboard	368,400 tons	20.2
synthetic fiber	16,500 tons	59.7
cotton cloth	154,000,000 meters	14.3
silk textiles	14,760,000 meters	13
bicycles	491,400 units	34.7
plastic products	97,800 tons	15.2
refrigerators	32,800 units	71
washing machines	42,300 units	130
audio recorders	654,700 units	315
television sets	589,500 sets	25.3
of which:		
color tv sets	406,000 sets	26.8

The total heavy industrial output value in 1985 was 6.025 billion yuan, an increase of 22.8 percent over the previous year. The situation in power output was relatively good. The output of items in short supply increased by a relatively large margin. However, the gap between supply and demand in energy and raw and processed materials was still relatively large.

The output of major heavy industrial products was as follows:

	1985	increase over 1984 (percent)
coal	6,065,300 tons	5.3
generated energy	7,720,000,000 kwhs	14.3
steel	317,500 tons	10.6
pig iron	379,900 tons	8.4
steel products	263,200 tons	4.6
lumber	4,617,600 cubic meters	10.1
resin	51,800 tons	-8.4
cement	2,906,900 tons	24.2
plate glass	1,053,100 cases	24.7
sulphuric acid	129,400 tons	9.1
caustic soda	64,100 tons	8.3
chemical fertilizer	328,800 tons	1.6
plastics	41,000 tons	10.0
chemicals	460 tons	23
generating equipment (above 500 kw capacity)	38,100 kw	120
small tractors	19,600 units	10.3

Following the development in depth of industrial structural reform with simplification of administration, delegation of power, and invigoration of enterprises as its central tasks, enterprises increased their ability to improve themselves and develop, and industrial economic results continued to improve. The average per capita output of state-run industrial enterprises was 13,036 yuan, an increase of 13.3 percent over 1984. The consumption of raw and processed materials as well as energy for major products under provincial supervision dropped as compared with the previous year. Profits and taxes turned in by state-run industrial enterprises increased 31.7 percent over 1984. The capital turnover rate was 7.8 percent faster than in 1984. However, the fixed cost of products increased 5.5 percent; the quality of some products dropped; and not all enterprises were able to make up deficits and show profits.

The state-run industrial enterprises established various forms of economic responsibility systems. The switch-over from turning in profits to paying taxes was further implemented. The percentage of state-run industrial enterprises which paid taxes in 1985 instead of turning in their profits grew to 81.1 percent from 75.3 percent in the previous year.

3. Foreign Economic Relations and Tourism

Foreign trade increased by a large margin in 1985. The province's total imports and exports in 1985 was U.S. \$1.091 billion, an increase of 63.9 percent over the previous year; of this, total exports were U.S. \$491 million, an increase of 13.3 percent over 1984, and total imports were U.S. \$600 million, an increase of 147.9 percent over 1984.

The use of foreign capital continued to increase. Some 403 new contracts involving a total of U.S. \$439 million in foreign capital were signed by the province in 1985, representing an increase of 73 percent over 1984. Of this total, U.S. \$377 million were direct investments from abroad, representing an increase of 87 percent over the previous year. The actual figure of foreign capital used in the whole year was U.S. \$177 million, an increase of 186 percent over 1984.

The province last year examined and approved 108 reports on the feasibility of importing various technologies and equipment, which involved a total investment of 433 million yuan. We also signed 305 contracts on importing technologies, and technologies imported according to 125 of these contracts had been put into operation by the end of last year. Eight of the 125 contracts involved \$1 million in foreign exchange each.

We also made progress in promoting economic and technical cooperation with foreign countries last year. We signed 74 contracts for various overseas projects and providing labor to foreign countries, which involved \$42.54 million. Some \$17.28 million of this was completed, 3.35 times more than the previous year. Our tourist industry also developed quite rapidly. In 1985, we received 355,800 people from 57 countries and regions who came for sightseeing, visits, and various exchange activities, up 31.5 percent from the previous year. Of these visitors, 76,700 were foreigners, a 42.5 percent increase over the previous years; 279,100 were Overseas Chinese and Macao and Hong Kong compatriots, an increase of 28.9 percent over the previous year. Tourist industry earnings totaled \$28.34 million last year, 24.3 percent more than the previous year.

The Xiamen Special Economic Zone and the Mawei Economic and Technological Development Zone further expanded their economic and technical relations with foreign countries. Foreigners, Hong Kong, Macao, and Taiwan compatriots, and Overseas Chinese who came to Xiamen for business, visits, meetings, and sightseeing totaled 84,700 people, 41.2 percent more than the previous year. Last year, we signed 105 contracts with foreign firms on setting up Chinese-foreign joint ventures, Chinese-foreign cooperative enterprises, and foreign-owned enterprises, with a total investment of \$242 million. Seven of these 105 investment projects involved more than \$10 million in foreign investment each. They included the Xiamen International Bank, the Hulishan Hotel, and the XIAMEN Polyester Fiber Corporation. The sand blowing [Chui sha 0706 3097] project in Qingzhou, an infrastructure project of the Mawei Economic and Technological

Development Zone, was completed ahead of schedule, leveling an area of 2 square kilometers. Five roads totaling 3,600 meters in the zone were also completed and opened to traffic.

4. Communications and Posts and Telecommunications

Communications departments made relatively good progress in the course of reform. Transportation capacity was enhanced, and passenger and cargo transportation volume increased considerably. Total turnover of cargo handled by railways, highways, ships, and barges in the province reached 12 billion metric ton-kilometers, up 11.5 percent from the previous year. Of this total turnover of cargo, 8.243 billion metric ton-kilometers were handled by railways, an increase of 18 percent; 991 million metric ton-kilometers were handled by highways, an increase of 10.2 percent; and 2.77 billion metric ton-kilometers were handled by ships and barges, a decrease of 3.8 percent. Cargo transported by civil air service totaled 3,794 metric tons, 31.2 percent more than the previous year; and cargo handled by major ports amounted to 9.13 million metric tons, up 4.2 percent from the previous year.

The total turnover of passengers carried by railways, highways, ships, and barges was 10.449 billion man-kilometers, an increase of 16.6 percent over the previous year. Of this total turnover, 3,525 billion man-kilometers were carried by railways, an increase of 17.7 percent; 6.635 billion man-kilometers were carried through highways, up 16.6 percent; and 289 million man-kilometers were carried by ships and barges, an increase of 5.1 percent. Passengers traveling by civil airliners totaled 176,900, 47.7 percent more than the previous year.

We also made considerable progress in posts and telecommunications in 1985. Total revenue earned by the industry exceeded 89.35 million yuan, up 25.9 percent from the previous year. Revenue earned by mail service increased by 15.7 percent; revenue from distributing newspapers and periodicals increased by 13.8 percent; revenue from telegraph services increased by 30.4 percent; and revenue from long distance telephone service increased by 37.9 percent. Urban households installed with a telephone reached 54,700 at the end of last year, 192 percent more than that at the end of the previous year.

The economic results of communications and posts and telecommunications departments continued to improve last year. The overall productivity of the railway transportation industry increased by 10.7 percent over the previous year. The average daily production volume of each locomotive used for driving a cargo train increased by 1.1 percent over the previous year. The fuel consumption of steam locomotives in completing each 10,000 metric-ton kilometers of transportation decreased by 0.5 percent over the previous year. Profits earned by the industry in 1985 increased by 38.1 over the previous year. The annual output of each metric ton of coastal freighters of the province increased by 2.5 percent over the previous year, and the utilization rate of these freighters increased by 9.4 percent. Profits earned by the posts and telecommunications industry

increased by 76.7 percent over the previous year. Nevertheless, current communications and transportation capacities still cannot meet production and circulation needs.

5. Fixed Asset Investment and Construction Industry

In 1985, the system to administer fixed asset investment was further improved, construction of capital projects was accelerated, and more efforts were devoted to modernizing existing enterprises. Some 5.428 billion yuan was spent on fixed asset investment in urban and rural areas last year, 1.985 billion more than the previous year, an increase of 57.6 percent. Of this investment, 3.71 billion yuan was invested by public-owned units, up 76.1 percent from the previous year; 889 million yuan was invested by collective-owned units in urban and rural areas; and 828 million yuan was invested by individuals. Of the fixed asset investment made by public-owned units, 2.676 billion yuan was invested in capital construction projects, an increase of 83.7 percent over the previous year. Some 549 million yuan invested in these capital construction projects was included in the state budget, an increase of 28.9 percent.

In 1985, we continued to build infrastructure projects in order to prepare for future development. Of the total capital construction investment, 532 million yuan was invested in the energy industry, 203 percent more than the previous year; 183 million yuan was invested in the communications and posts and telecommunications industries, an increase of 27.1 percent; and 184 million yuan was invested in education, an increase of 49.6 percent.

Thirty-six large and medium-sized capital construction projects were undertaken last year. Eleven of these projects have been completely or partially put into operation; they include the Yongan thermal power plant and the Qingyang sugar mill. Major output generated by the completed capital construction projects included: 120,000 metric tons of coal; 202,300 kilowatts in generator capacity; 62.86 kilometers of power transmission lines (110,000 volts or above); 2.89 million cubic meters of timber, 44,000 metric tons of cement; 26,000 metric tons of machine-made sugar; and 158,900 school seats.

Development in the Xiamen Special Economic Zone was speeded up, and the investment climate was further improved in 1985. Some 759 million yuan was invested in capital construction projects in the zone last year, 81.1 percent more than the previous year. It also increased its fixed assets by 400 million yuan, an increase of 235 percent. Floor space completed last year amounted to 991,500 square meters, 10.4 percent more than the previous year. The Mawei Economic and Technological Development Zone also made new progress in the construction of infrastructure projects. Projects involving 75 million yuan were completed in 1985.

More efforts were devoted to modernizing existing enterprises last year. Public-owned units invested 849 million yuan in this work in 1985, 45.5 percent more than the previous year. Of this investment, 533 million yuan

was invested in increasing product variety and improving product quality, an increase of 63.5 percent over the previous year; 81 million yuan was invested in reducing energy and raw material consumption and in improving product quality, and increase of 39.7 percent. Modernization programs were undertaken on 2,200 projects last year, and 1,114 of them were completed and put into operation.

We deepened our efforts to restructure the construction industry last year, which resulted in more rapid development of the industry. The contract responsibility systems in various forms was implemented on 1,105 of the 2,384 construction projects undertaken by local and state-run construction companies in 1985, which brought better economic results. Output value accomplished by these companies totaled 492 million yuan in 1985, up 23.8 percent from 1984, and their overall productivity increased by 14.9 percent.

New progress was also made in the geological field last year. Our geological workers completed 170,700 meters of drilling in geological prospecting, 34.9 percent more than the previous year. Newly discovered mineral reserves included 30.22 million metric tons of coal, 29.67 million metric tons of limestone, and 7.42 million metric tons of iron ore. In addition, we discovered 15 major mineral sources which are relatively large in size and have good geological conditions for prospecting.

6. Domestic Trade and Supply of Materials

Urban and rural markets thrived in 1985. Retail sales reached 10,709 million yuan, a 26.1 percent increase over the previous year, and after allowing for price rises, an actual increase of 14.0 percent. Of total retail sales, consumer goods amounted to 8,683 million yuan, 27.6 percent more than 1984, and farming materials and equipment totaled 1,105 million yuan, topping the previous year by 5.7 percent. Sales of major consumer goods increased by relatively big margins, including grain, 3.4 percent; edible vegetable oil, 3.8 percent; pork, 4.0 percent; eggs, 37.3 percent; sugar, 19.4 percent; woolen fabrics, 71.9 percent; silk, 23.2 percent; bicycles, 29.2 percent; cameras, 28.9 percent; electric fans, 87.0 percent; TV sets, 83.2 percent; audio tape recorders, 250 percent; washing machines, 92.9 percent; refrigerators, 270 percent; knitted underwear, 64.1 percent; and cloth, 18.7 percent.

Commercial structural reform developed significantly, and a new multi-channel commercial system with various economic forms emerged. By the end of 1985, the state had decontrolled 32 second-level industrial goods wholesale centers; a total of 1,078 small state-owned enterprises in the retail business, the catering trade, and other service trades were delegated to collectives -- turned over for collective ownership or leased to individuals. These accounted for 55.5 percent of all small enterprises. The number of urban and rural commodity fairs increased from 1,306 in 1984 to 1,359 in 1985. Trade value in 1985 amounted to 2,118 million yuan, a 34.8 percent increase over the preceding year. Retail sales

in all economic sectors increased considerably. The total amount of retail sales in the state-owned sector grew 17.7 percent and amounted to 4,023 million yuan; retail sales in the collective sector totaled 3.96 billion yuan, an increase of 18.1 percent over 1984. Sales in the individual sector went up by 60.2 percent to total 1,703 million yuan. Sales in other economic sectors rose by 720 percent to 102 million yuan, while retail sales by farmers to nonagricultural residents went up 42.4 percent to reach 921 million yuan.

The major step of pricing reform progressed smoothly, but market prices rose considerably. The general retail price index in 1985 increased 10.6 percent over 1984. Of that, the general retail price level, being influenced by the readjustment and decontrol of commodity retail prices for some farm and sideline products, rose 6.6 percent. The general retail price level, influenced by other factors, also went up by 4 percent. The general retail price index in the cities rose 14.4 percent and 6.7 percent in the countryside. The price of grain rose by 4.4 percent; fresh vegetables, 35.6 percent; meat, poultry, and eggs, 18.2 percent; aquatic products, 42 percent; fruits, 38.7 percent; articles for everyday use, 4.1 percent; books, newspapers, and magazines, 19.3 percent; and fuel, 3.8 percent. Retail prices of garments and cultural and recreational goods increased slightly as well. Prices of farming materials and equipment grew 5.6 percent. The cost of living index for workers and staff went up 14 percent, of which the price index of consumer goods increased by 14.4 percent; the price index of services rose by 10.1 percent, and the general purchasing price index of farm and sideline products increased 16.4 percent on the average over the preceding year.

The market for means of production was brisk. Material supply departments in Fujian increased their procurement by 31.5 percent and sales volume by 30.8 percent over the previous year, including sales of pig iron, 13.6 percent; rolled steel, 14.9 percent; and cement, 5.4 percent. The rate of circulating expenses dropped from 5.2 percent in 1984 to 4.7 percent. The turnover period for circulating funds decreased by 11 days. Coal sales by fuel supply departments in Fujian increased by 3.3 percent.

7. Science, Education, and Culture

Science and technology advanced amid reform, making fresh contributions to economic development in 1985. Popularization of scientific and technological projects yielded improved economic results. The ranks of scientists and technicians also continued to swell. In 1985, 143,500 natural science professionals and technicians were employed in state-owned enterprises in Fujian, 8,700 more than in 1984. There were also 165,400 people working in social sciences, 8,200 more than in the previous year.

Education continued to develop in the course of reform. In 1985, there were 1,064 postgraduates, 28.7 percent more than in 1984, studying in the province; 324 completed graduate school in 1985, a 10-fold increase over 1984. Universities and colleges enrolled 17,900 students in 1985, 5,710

more than in 1984. Graduates from these schools totaled 7,900 in 1985, 292 more than in 1984. They had a total student body of 44,100 last year, 10,100 more than the year before. Adult higher education institutions enrolled 22,800 students last year, 13,100 more than 1984. Total student body increased to 39,600, 15,100 more than the year before. Graduates from these schools totaled 4,500 last year, 2,300 more than 1984.

Restructuring continued in secondary education. In 1985, there were 95 secondary technical schools with a total enrollment of 43,400, increasing by 7,216 as compared with 1984. The number of senior middle school students was 199,000 -- 20,800 more than the previous year. The number of junior middle school students was 900,200 -- 58,700 more than in 1984. Agricultural middle schools and vocational middle schools had 55,200 students, 16,100 more than in 1984. The ratio between the total enrollment of senior middle school level vocational and technical schools and the total enrollment of regular senior middle schools was 33:67.

Primary school education was further popularized and developed. There were 26,600 primary schools in the province in 1985 with a total enrollment of 3,724,000 -- 37,200 more than in 1984. Of school-age children, 97.3 percent attended school in 1985. Kindergartens in the province had 520,300 pupils last year, 30,200 more than the year before.

Cultural units, cinema, and the media played an important role in building socialist spiritual civilization. There were 3,669 film projection units in the province in 1985, increasing by 142 as compared with the year before. There were 104 full-time performing art troupes, 65 public libraries, 78 cultural clubs, 24 museums and memorial halls, 3 radio stations, 36 radio transmitting and relay stations, 3 television stations, and 10 television transmitting and relay stations, each with a capacity of over 1,000 watts. In 1985, the province published 358 million copies of newspapers, up 27.4 percent from 1984; 33,751,000 copies of magazines, up 38.3 percent from 1984; and 156 million copies of books, up 31.1 percent from 1984.

8. Public Health and Sports

Public health work was constantly strengthened in 1985. The number of hospital beds in the province reached 52,000 by the end of the year, an increase of 2.1 percent as compared with the end of the previous year. Professional health workers numbered 74,200, up 3.7 percent as compared with 1984. The total included 27,000 doctors, an increase of 4.2 percent; 17,000 nurses and midwives, up 2.3 percent. Further progress was made in mother and child care and in the prevention and treatment of diseases.

In 1985, Fujian's athletes won 53 gold and 24 silver medals in major international competitions. Six of them won four world championships. Fujian's athletes also won 42 national championships. Three of them broke three national records on nine occasions. Thirty-seven athletes broke 61 provincial records on 64 occasions. In 1985, 780,000 people in the province met the requirements prescribed by the "State Standards for

Physical Culture and Sports Training," 11 athletes won the honor title of state master sportsman, and 22 athletes won the honor title of master sportsman. Mass sports activities were further promoted.

9. Living Standards

Living standards in both the cities and the countryside were improved in 1985. A sample survey of peasant families showed an average annual per-capita net income of 396 yuan (including 353 yuan from productive activities and 43 yuan from cash and acricles remitted or brought back by family members working away from home and relief funds issued by the state), 51 yuan or 14.9 percent more than the previous year. The actual increase in income was 10.6 percent after adjustment for rise in prices. However, our economic development was quite uneven. In some localities with slow economic development, the people's livelihood was still difficult. In some old revolutionary base areas, minority nationally regions, border regions, and poor regions and on some islets, the people's basic needs in food and clothing had not yet been satisfied.

A sample survey of urban households showed an average annual per-capita income of 672.52 yuan for expenses in 1985, an increase of 24.9 percent over 1984. After adjustment for the rise in the cost of living, the actual increase was 9.5 percent.

In 1985, jobs were given to 164,000 people in urban areas. The province had 2,741,100 workers and staff by the end of the year, 113,300 more than at the end of 1984. Self-employed workers in the cities and towns totaled 137,600, an increase of 46,100 over the previous year. Annual wages (Note 4: including subsidies issued to compensate for higher commodity prices) of workers and staff in the province totaled 2,903 million yuan, up 24.1 percent from 1984. The average annual cash wage for workers and staff was 1,100 yuan, 19.4 percent more than 1984. The actual increase in workers' wages stood at 4.8 percent, factoring in the cost of living increase.

Urban and rural savings deposits increased greatly. By the end of 1985, individual bank savings amounted to 4,759 million yuan, 34 percent more than the 1984 year-end figure. Housing for both urban and rural residents improved, and per-capita floor space increased.

Social welfare improved. In 1985, there were 307 social welfare institutes in the province, providing for 5,400 people. Urban and rural collectives provided for 42,400 elderly, disabled, widowed, and orphaned people.

10. Population

In 1985, the province had a population of 27,131,000.

Note: the figures in this communique are based on preliminary annual statistics. They do not include the figures for Jinmen County and Mazu Island of Lianjiang County. The total product of society, total industrial and agricultural output value, and the national income in this communique were computed according to 1985 prices. The increases over the previous year were calculated in terms of comparable prices.

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CSO: 4006/1060

AGGREGATE ECONOMIC DATA

BRIEFS

INCREASE IN PER-CAPITA INCOME--According to BEIJING WANBAO, the urban per-capita national income of our municipality ranked second among the 29 provinces, municipalities, and autonomous regions of the country, next only to Shanghai. This information was released by (Xu Yiliang), director of the municipal Statistical Bureau, at a press conference held today. During the past 5 years, although the population of our municipality increased from 5.104 million in 1980 to 5.725 million in 1985, various aspects of the people's lives showed great improvement. Calculated on the basis of permanent population, the per-capita national income reached 2,040 yuan. In terms of comparable prices, this showed a 47.4-percent increase over 1980, averaging an annual increase of 8.1 percent. In 1985, the average wage of the staff members and workers throughout the municipality was 1,343 yuan. This showed a 34.4-percent increase over 1980, when price subsidies were added, and price rises were considered. The average annual increase was 6.1 percent. Such a high growth rate was rare since the founding of the PRC. [Text] [Beijing City Service in Mandarin 0900 GMT 9 May 86] /12640

CSO: 4006/1060

ECONOMIC MANAGEMENT

WENZHAI BAO EXAMINES EXTERNAL INTERFERENCE IN PRODUCTION

HK010837 Beijing WENZHAI BAO in Chinese No 306, 24 Apr 86 p 2

[Article by WENZHAI BAO Reference Office: "What Can a Factory Do With So Many 'Mothers-in-law'?"]

[Text] A certain brewery invited comrades from as many as 30 other units to attend a meeting to verify the feasibility of expanding its workshop for the production of brand-name wine. Why were so many guests invited? The director of the plant said: "All these units are 'mothers-in-law' of our factory. If any of them is not invited, it will be offended and will play underhand tricks against us. Therefore, we had no alternative but to invite all our 'mothers-in-law' and 'grandmothers-in-law'!"

The plant director continued to say that on the eve of the Spring Festival in 1982, a unit under the City Power Supply Bureau came to ask for 500 bottles of good wine. Since we did not have sufficient good wine to meet the needs of the Spring Festival, we refused to give the wine to this unit. Not long after, the unit informed us by telephone that power supply would be suspended. On the following day, our plant told the unit that we agreed to give it 500 bottles of wine as requested and offered our apology. The result was that we were told "power supply will be ensured." On the eve of the Spring Festival last year, the City Coal Company sent someone to ask for 100 boxes of a brand-name wine which had won gold medals. At that time, we did not have enough of such wine and proposed to replace part of the wine it wanted with other wine. The person from the company snatched back his company's introductory letter and left immediately. Not long after, the Coal Company told us that because of short supplies of coal, no more coal would be supplied to our brewery. I was forced to bring 100 cases of brand-name wine with me to the Coal Company to offer an apology before the problem of coal supply was solved.

Various kinds of "mothers-in-law" have made things very difficult for the brewery. In order to meet market demand, the brewery developed a special kind of wine with 35 percent alcohol in the beginning of 1984. To date, this kind of wine has not yet been put into mass production. This has been caused by the dilatory style of work by "mothers-in-law" concerned. To sell our products, we have to obtain permission from price departments at two levels. After this, we still have to get the approval of the quarantine center. We sent some products to them a month ago but we are still waiting for their reply.

/12766

CSO: 4006/1007

ECONOMIC MANAGEMENT

NEED CITED FOR REGULATIONS ON ENTERPRISE BANKRUPTCIES

Beijing BAN YUE TAN in Chinese No 5, 86 pp 40-42

[Article by Cao Siyuan [2580 1835 3293]: "There Is a Need for Legal Provisions for Enterprise Bankruptcies"]

[Text] In recent years, we have done considerable work in reforms to enliven enterprises. But so far there has been no effective solution for the problem of unprofitable enterprises going bankrupt.

In one investigation it was found that from 1967 to 1976 a chemical plant with fixed assets of only 10 million yuan had incurred continuous losses to a total of 9.6 million yuan. Since there were no means to impose any restraints, losses increased without letup. In 1977 the losses for the year surpassed the 2 million yuan mark, and in 1982 further increased to 3.67 million yuan, bringing the accumulated total losses of the factory up to 25.8 million yuan, or 2.5 fold more than the fixed assets of the entire plant.

According to reason, this plant had long ago lost all its original capital and was in fact bankrupt, but it continued to exist and as before to run up losses, doubling and redoubling its losses. The main reason for this situation is that our economic management system provides such enterprises with "reassurances." Regardless how chaotic its management, how backward its technology, how obsolete its products, or how poor its economic results, the enterprise seems "endowed by Heaven" with the right to exist; it is immortal because it can always depend on financial subsidies. Some people erroneously believe that this is a display of the superiority of socialism.

As long as we do not have the institution of bankruptcy, enterprises that operate at loss over long periods of time on the one hand occupy or waste the fruits of labor of their creditors without remuneration, do not service debts, and make it a common practice to repudiate debts, throwing the entire socioeconomic order into chaos. On the other hand, the financial subsidies provided for such unprofitable enterprises not only saddle the state with a heavy burden and impede the development of production and the implementation of measures to improve the livelihood of the people, but also, more seriously, foster a mentality among debtors that all responsibility can be shifted to the state, a mentality that hampers efforts to stimulate a sense of responsibility and urgency among enterprises to improve their business management and leads

to increased inertia and resistance in the entire business machinery, thereby decreasing economic results throughout society as a whole. Administrative measures are unable to revive the vitality of such enterprises whose continuous losses have brought them to a state of bankruptcy. Here, help can only come from legal measures, i.e., the legislation of an enterprise bankruptcy law, and instituting bankruptcy procedures, to eliminate backward enterprises and encourage progress as the goal in all enterprises.

Instituting bankruptcy procedures means discharging debts while in the state of bankruptcy. Being bankrupt means that the debtor cannot satisfy debts to a creditor on a due date. In the case of an electrical equipment plant, for instance, losses were incurred year after year due to chaotic management conditions. By 1985 its debts to 247 units amounted to 500,000 yuan, while all its property had a value of only 300,000 yuan; it was obviously unable to repay the entire debt of 500,000 yuan. According to an enterprise bankruptcy law, this enterprise should have been declared bankrupt, its property liquidated and used to pay its debts, and it should have been granted a discharge according to law for all debts for which assets would have been found insufficient.

By paying debts in a bankruptcy procedure the debtor on the one hand fulfills all his obligations to the best of his ability, and thereafter is granted a discharge of all previous debts. On the other hand, the procedure protects the legitimate interests of the creditors, ensuring within the limits of what is possible the fulfillment of all obligations and preventing the creditors from getting nothing at all. It may be said that implementation of a bankruptcy law enables the direct disposition of a small number of cases of enterprise bankruptcies, and indirectly embodies the universal principle that debts must be repaid, and therefore serves to protect the interests of the broad masses of the people.

Some say, isn't it a fact that there is no further life for the enterprise after bankruptcy? Precisely. This is what is called "elimination." In commodity production, the objective law of value determines: whatever is low in production costs and suits the requirements of the market will yield larger profits and experience greater development; whatever is high in production costs and unsuitable for the requirements of the market will, quite naturally, yield little profit or even lead to losses. The losses will frequently come to constitute an abnormal indebtedness, and when the indebtedness exceeds the ability to repay, the enterprise will have to be closed down and declared bankrupt. The bankruptcy and elimination of producers of backward commodities is the natural result of the development of commodity production, as it is also the necessary factor that will spur on the development of commodity production at a high rate of efficiency. When a bankruptcy law is implemented and backward enterprises have to close down and be declared bankrupt, it is like a silent warning bell and a silent command which calls on the large number of enterprises to actively and vigorously improve business operations and update technology, and by so doing promote the enhancement of economic results and science and technology levels throughout the society as a whole.

If a bankruptcy law is in effect and an enterprise should fall into bankruptcy, the bankruptcy case would be handled by the law court. The

management, liquidation and distribution of assets in the bankruptcy procedure will be carried out according to a certain procedure in an orderly way; it will be "dying a good death," and will forestall endless bickering by creditors demanding payment of debts.

When an enterprise goes bankrupt, its assets will be liquidated and distributed among its creditors, while its employees (including cadres) become "job-waiting" personnel. How are their livelihood and career problems to be solved? This is something for priority consideration in a socialist country when drawing up a bankruptcy law. The institution of bankruptcy is closely linked with the question of bankruptcy relief measures. The state will in future have to make clear and definite provisions regarding the accumulation, management and distribution of a bankruptcy relief fund and regarding ways to reemploy staff and workers.

Perhaps some may argue that since this is so, it may suffice to merely dismiss the factory director when his enterprise goes bankrupt. Yet the common worker is also punished. Isn't this being unfair?

Actually, if one would only acquire a true concept of the commodity economy, this problem is not at all difficult to understand. An enterprise as a producer of commodities is the embodiment of the common fate of all its members. An enterprise operating under the conditions of commodity economy is like a ship on the high seas. When it strikes a rock and sinks, even if due to a serious fault of the captain, it will certainly not only be the captain who goes down. We see the same reasoning in the objective law that prevails in the development of the commodity economy. Violating this law will deprive everyone of production enthusiasm. Observance of the said law will have everybody show concern in all operations for the fate of the enterprise because everyone's own vital interests are at stake. China is a socialist state with a constitution that sets forth that the masses are not only workers, but also masters of their enterprises. Hence, there ought to be an even closer bond between workers and enterprise. It is only that the economic system of everybody eating from the same big pot prevents bringing the advantages of the socialist system into full play and suppresses enthusiasm for democratic management of enterprises by workers. Practice has proven that the spirit of being masters can only be built on the foundation of real responsibility, power and interests. If a certain economic loss in connection with the losses and bankruptcy of the enterprise would also have to be borne by the entire body of employees, they are bound to be concerned about the business affairs of the enterprise.

The survival of the fittest enterprises is like metabolism in all things on earth; it is normal and beneficial, and also unavoidable. But, one sided propaganda over a long period of time has created the erroneous concept that bankruptcy of enterprises will result in social turmoil. Dominated by this erroneous concept, a considerable amount of the state's and the people's valuable capital has been squandered year after year as "blood transfusions" to certain enterprises without the slightest vitality, protecting backward enterprises from elimination, and running enterprises as if they were relief or charitable organizations. Practice has proven that this served only to

cover up unstable elements, to accumulate such elements and to multiply economic losses. If we are now intent on instituting a bankruptcy system, it is to declare those bankrupt enterprises legally bankrupt. At the same time relief should be provided according to a certain procedure for all unemployed staff and workers who deserve to receive relief. Providing relief is a different matter from running an enterprise. It is only in this manner that consideration could be given to both social stability and economic results.

9808

CSO: 4006/924

ECONOMIC MANAGEMENT

GUANGDONG GOVERNOR URGES INVIGORATING ENTERPRISES

HK280304 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 27 Apr 86

[Text] At a provincial urban economic structural reform work conference that ended today, provincial Governor Ye Xuanping said that invigorating enterprises is the foundation of economic structural reform. We must make great efforts to invigorate enterprises so as to develop horizontal economic ties.

The governor said that the main role in horizontal economic ties is enterprises. So long as enterprises have their own decisionmaking power and more vitality, they will combine with others of their own accord on the basis of equality and mutual benefit. Economic management departments at all levels, as government organs, cannot take care of everything concerning combinations between enterprises, nor can they enforce enterprises to combine or use administrative means to interfere with combinations. They must act as good go-betweens, provide information, and act as a bridge in combinations of enterprises.

On how to invigorate enterprises, Governor Ye Xuanping said that on the one hand we must give more decisionmaking power to enterprises, delegate power to enterprises, and create conditions externally to invigorate enterprises; on the other hand, we must further implement various reform policies within enterprises and strengthen business management. For example, we may promote the factory manager responsibility system and perfect various economic responsibility systems to invigorate enterprises and raise economic results.

The governor also emphatically pointed out that at present the province should focus on developing horizontal economic ties, on encouraging enterprises to develop the energy, communications, and raw material industries, and on encouraging them to make joint efforts to develop products for export and foreign exchange and products in short supply in the country.

/12766

CSO: 4006/1007

ECONOMIC MANAGEMENT

HEILONGJIANG HOLDS CONFERENCE ON INDUSTRIAL PRODUCTION

SK041400 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 2 May 86

[Text] The provincial CPC Committee and government held a telephone conference this morning. Hou Jie, governor of the provincial government, presented a plan for grasping the current industrial production at the conference.

The conference held: Our province's industrial growth rate, economic results, and revenue in the first 4 months of this year were not ideal enough. From now on, leaders at all levels throughout the province should shift their attention to industrial production, conscientiously strengthen their organizational leadership over industrial production, and improve and implement the economic contracted responsibility system in order to further vitalize production and management and to facilitate industrial production.

The conference held: There were many reasons or causes for the declines in our province's industrial growth rate and economic results. However, the main reasons were that leaders and economic administrative departments at all levels failed to do their work well; that is, they failed to exercise organizational leadership over industrial production, to carry out the economic responsibility system, or to firmly grasp ideological and political work.

The conference set forth: We should conscientiously enhance the organizational leadership over industrial production in order to solve the problems existing in industrial production. Leaders at all levels should shift their attention to industrial production. The leading bodies of all cities, prefectures, counties, provincial-level industrial and communications departments and bureaus, and companies should immediately and conscientiously study the problems in the current industrial production, analyze the current situation of industrial production, correctly find out where the problems lie, and take countermeasures to firmly solve the problems in order to ensure the fulfillment of the annual targets for increasing output value and economic results.

The conference called on cadres of economic administrative departments to go to the grassroots enterprises to help them study and solve the problems in the current industrial production. Cadres of economic administrative departments should implement the regulations of the provincial CPC Committee and the provincial government on drawing a clear line of demarcation between the unhealthy practices and the formal economic activities of the state, collective, and

individual enterprises, and help enterprises study and work out measures for enhancing ideological and political work. In response to the decision of the provincial government on reducing excessive meetings, cadres are given more chances to go deep among the grassroots units.

The conference stressed: From now on, we must link the arrangements for all political activities with the guiding ideology of shifting the whole party's stress of work defined at the 3d Plenary Session of the 11th CPC Central Committee. The departments at all levels should focus their work on serving the four modernizations. Straightening out party style and popularizing education on general knowledge of the law is aimed at the realization of the four modernizations. Thus, we must combine the arrangements for these activities with the thinking regarding how to achieve the current production.

The conference also called on all localities to improve and implement the economic contracted responsibility system in order to enliven the production and management of the enterprises. Through summing up experiences, the enterprises should maintain the advantages and discard the disadvantages to make all effective forms, content, and measures of the contract systems be mutually reinforcing. Acting on behalf of the governments, the management departments at all levels should sign economic contracts with the enterprises in order to assign contracted economic targets to the enterprises as soon as possible.

The conference also set forth suggestions on improving the quality of products, reducing the costs of materials, grasping the sales of products, upgrading economic results, and enthusiastically conducting ideological and political work.

The telephone conference was presided over by Chen Yunlin, deputy secretary of the provincial CPC Committee.

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CSO: 4006/1007

ECONOMIC MANAGEMENT

GUIZHOU PLANNING, FINANCE CHIEFS DELIVER REPORTS

HK010125 Guiyang Guizhou Provincial Service in Mandarin 1400 GMT 30 Apr 86

[Excerpts] (Zhou Banghua), director of the provincial Planning Commission, reported to the Fourth Session of the Sixth Provincial People's Congress on the draft economic and social development plan for the province in 1986.

He said: According to the arrangements in the draft plan, total industrial and agricultural output value this year should be 16.2 billion yuan, an increase of 10.7 percent over last year in terms of 1980 prices. Gross domestic product should be 14 billion yuan, an increase of 12.4 percent. National income should be 12 billion yuan, a rise of 11.3 percent. He put forward the following demands:

1. Continue to put agricultural development in an important strategic position and do everything possible to reap bumper harvests. It is necessary to suitably stabilize the sown area of grain crops, keep under control the sown area of industrial crops such as tobacco, and focus on improving yields and quality. We should strive for new breakthroughs in the township enterprises. Townships and villages that have not yet set up enterprises should develop them as quickly as possible. The enterprises already developed should be consolidated and improved. We must appropriately increase input in agriculture and also take effective steps to improve the work of supporting poor areas.
2. Strive to increase output of consumer goods that sell well in the markets. We must also vigorously tap potentials and develop energy, the raw materials industry, and communications and transport.
3. Keep investment in fixed assets under control, rationally readjust the investment structure, and improve the economic results of investment. In accordance with the state's demands, we should strive to base our work on the overall situation and switch our main efforts to tapping potentials, carrying out technological transformation, and improving enterprise management and technical standards.
4. Work hard to earn more foreign exchange from exports and keep under control foreign exchange spending on imports. We must further promote external economic and technical cooperation and exchange.

5. Make proper arrangements for supplying the markets, keep prices basically stable, and continue to improve living standards.

6. Further develop education, science, culture, public health, and sports. We must also strengthen leadership over planned parenthood work and ensure that the natural population growth rate does not exceed 10 per 1,000.

Provincial Finance Department Director (Long Xingyang) said in his report: The province's local budgeted revenue for 1986 is 1.65 billion yuan, an increase of 205 million yuan--13.8 percent--over the final revenue accounts for 1985. The planned expenditure for the year is 2.65 billion yuan.

(Long Xingyang) said: The arrangement for revenue is a positive one, but that for expenditure is rather tight. The contradiction between needs and possibilities is rather conspicuous. In order to fulfill the financial task for 1986, we must make active efforts to arrange things with care and caution.

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ECONOMIC MANAGEMENT

SICHUAN RIBAO URGES DEVELOPMENT OF LIGHT INDUSTRY

HK221555 Chengdu SICHUAN RIBAO in Chinese 7 Apr 86 p 2

[Commentator's article: "It Is Necessary To Maintain an Appropriate Growth Rate in Light Industry"]

[Text] The situation in our province's light industrial production in the first few months of this year was not good. In the first 2 months, both the output value and the tax-profit contributions of light industry declined as compared with the same period of last year, and production costs increased. Although production increased in March, the total output of the first quarter was still less than the same period of last year. This downward trend in industry did not appear in the previous few years. An important reason for this was that the personnel concerned did not realize the necessity of maintaining an appropriate growth rate in light industrial production and did not effectively direct production as they relaxed their efforts.

At any time, we must not neglect the importance of the growth rate. Practice shows that we cannot seek a high growth rate without guaranteeing good economic results, nor can we give up the efforts to maintain an appropriate growth rate, because this will affect the economic results and state revenue. Moreover, light industrial goods are sensitive goods on markets, because they have close relations with people's livelihood. Once they are in short supply, the people will immediately feel the effects of the shortage and market prosperity and social stability will be affected. As we know, urban and rural residents in our province have markedly increased their incomes, and their purchasing power in 1986 is certainly greater than in 1985. This state of affairs sets a higher demand on our light industrial departments, which are required to supply sufficient quantities of light industrial goods of good quality. Therefore, we must maintain an appropriate growth rate in our light industrial production and must try by every possible means to fulfill the target that the provincial authorities assigned to the light industrial departments. It is only necessary but also possible to do so, because the central and provincial authorities have once again reiterated that priority will be given to light industry and the funds, raw materials, and energy needed in light industrial production will be guaranteed. Meanwhile, the quality of our present light industrial goods is still not good enough, the consumption of raw materials in light industrial production is still rather high, and waste remains serious. If we seriously strengthen enterprise management by adopting some modern methods

and effectively solve the above problems, we will tap great potential in our production. In addition, we completed a number of construction and transformation projects last year. They now form the new productive capacity that we can employ. This is also a favorable factor. However, we must point out here that when maintaining a certain growth rate in production, we must also pay attention to improving product quality, enriching the variety of products, developing new products of better quality, and increasing the production of marketable and original products, and we must not shift to produce goods of inferior quality and of limited variety which are not needed or favored by the consumers.

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ECONOMIC MANAGEMENT

QINGHAI GOVERNOR ON ENTERPRISE PROBLEMS, LIVING STANDARDS

HK270239 Xining Qinghai Provincial Service in Mandarin 2330 GMT 26 Apr 86

[Text] In his report on the Seventh 5-Year Plan, Governor Song Ruixiang stressed: We have formulated a number of policies and regulations in the course of invigorating the enterprises in recent years, and the enterprises have been invigorated to a certain extent. However, there are three outstanding problems that have not been solved well:

1. Some regulations on expanding enterprise decisionmaking powers have not been sufficiently implemented. The old setup of separation between departments and regions and closed-style operations has not been completely dismantled.
2. The enterprises lack a concept of market and competition. As a result, the phenomenon of everybody eating out of the same big state pot has not been completely eliminated.
3. The enterprises' mentality of striving to be large and complete or small and complete and not seeking help from anybody outside has not been completely eliminated.

To solve these problems, we must continue to implement the regulations on streamlining the administration and delegating powers, and truly delegate to the enterprises the powers that should be delegated.

Governor Song Ruixiang said in his report: We must correctly handle the relationship between production and construction on the one hand and improving living standards on the other. We must not one-sidedly stress production and construction and neglect living standards, nor can we improve people's living standards and pay and conditions to a degree in excess of production development. Consumption growth cannot be higher than production growth during the Seventh 5-Year Plan. In principle, the growth of workers' wages cannot exceed the growth of labor productivity. This principle must also be followed when considering and arranging the necessary specially favorable treatment in Qinghai. We must clearly understand that this issue is related to the long-term overall situation of the province's economic development.

We must continue to carry forward the fine tradition of arduous struggle and building the country with diligence and thrift. We must seriously implement the socialist principle of distribution according to labor, mobilize people's enthusiasm, and eliminate egalitarianism. We should allow some people to get rich through legitimate labor, and thus attain the goal of prosperity for all.

ECONOMIC MANAGEMENT

SHANXI MEASURES TO CONVERT DEFICITS TO PROFITS

HK260311 Taiyuan SHANXI RIBAO in Chinese 14 Apr 86 p 1

[Report by Wang Xiuse [3769 4423 2773] and Wang Zhongxin [3769 0022 0207]:
"Provincial Economic Commission and Financial Department Formulate Six
Measures To Encourage Enterprises To Turn Deficits Into Profits"]

[Text] Following the principle of "bring more pressure, stressing policies and providing opportunities," the provincial Economic Commission and provincial Financial Department recently formulated six measures encouraging enterprises to turn deficits into profits.

Last year, the province's number of loss-incurred enterprises sharply increased. The trend continues this year. By the end of February, the number of state-run loss-incurred industrial enterprises in localities totaled 186, an increase of 55 compared to that by the end of 1985. The amount of deficits totaled 8.78 million yuan. In terms of trades, the number of loss-incurred enterprises increased in the chemical industry, machine-building industry, building material industry, light industry, and so on. In terms of places, the amount of deficits increased in Yangquan, Jincheng, Yanbei, Luliang, and other prefectures and cities. Therefore, the provincial Economic Commission and provincial Financial Department pointed out: First, we should establish at various levels the system of contracted responsibilities of turning deficits into profits, as well as the economic responsibility system in the loss-incurred enterprises and departments in charge of the work. If an enterprise fails to act in accordance with the planned progress of turning deficits into profits, the responsible departments at the upper level should deduct proportionally and month by month the wages based on professional titles, floating wages, and even the basic wages of the principal responsible worker. On principle, the proportion of deduction of basic wages should not exceed 20 percent. We should remove from office those responsible people who are incompetent in implementing measures of turning deficits into profits, or who cannot accomplish the work within the specified time but allow the deficits to increase without any particular reason. We should arrange ordinary work for them, instead of appointing them to administrative posts. Second, we should grasp the major loss-incurred enterprises, and strictly control enterprises that face new deficits. The provincial Economic Commission and provincial Financial Department should announce in every quarter the names of major enterprises with deficits over 20,000 yuan. Third, we should help major loss-incurred

enterprises strengthen management, improve product quality, and cut back consumption. The economic commissions, financial departments, banks, and other departments at various levels must continue to offer consultation services to loss-incurred enterprises. They should help the enterprises analyze their economic activities and strengthen their economic accounting. Fourth, we should expedite the pace of technological transformation of loss-incurred enterprises. The provincial, prefectural, and county authorities must allocate a certain amount of funds for technological transformation. Financial departments at various levels must use part of their funds as small loans for technological transformation. Based on the method of checking and ratifying the budget deficits of loss-incurred enterprises of that year, we can continue to grant them loans ahead of schedule. Thus, we can concentrate the financial resources, as well as support and expedite the pace of technological transformation of enterprises, so as to promptly achieve the goal of turning deficits into profits. Fifth, we should be determined in closing or merging some of the enterprises, or stopping or changing their production, as the case may be. Sixth, financial, tax, auditing departments, banks, and other departments must strengthen their economic supervision over loss-incurred enterprises.

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CSO: 4006/1007

ECONOMIC MANAGEMENT

SICHUAN PLANNING, FINANCE CHIEFS REPORT TO PEOPLE'S CONGRESS

HK010533 Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 1 May 86

[Excerpts] Pu Haiqing, vice governor and director of the provincial Planning and Economic Commission, delivered a report to the provincial People's Congress session on 28 April on the execution of the provincial plan for 1985 and on arrangements for the 1986 plan.

He said: To ensure the fulfillment and overfulfillment of this year's plan, the province should focus on the following eight aspects of work in social and economic development: 1) Continue to get a good grasp of agricultural production and strive for overfulfillment of the planned grain target. 2) Step up ideological and political work for staff and workers to ensure the fulfillment of this year's industrial production targets. 3) Carefully organize the production and allocation of electric power, to ensure supplies for industrial and agricultural production. 4) Vigorously develop urban and rural collective enterprises. Particular attention must be paid to developing collective industry. 5) The functional role of the banking departments must be brought into full play. The work of raising and channeling capital must be grasped well, and the contradiction of extreme shortage of capital should be eased. 6) Further develop lateral economic ties and cooperation based on the principle of mutual interest and benefit and common development. 7) Strengthen controls over investment in fixed assets and continue to control the size of such investment. 8) Seriously implement the principle of consolidation, digestion, replenishment, and improvement, and continue to carry out all-round economic structural reform focused on the cities.

The province scored notable success in economic and social development in 1985. There was a relatively big increase in revenue and expenditure. The budget was balanced with a slight surplus. This was stated by provincial Finance Department Director (Duan Bingren) on 28 April in his report to the provincial People's Congress session on the final accounts for 1985 and the budget for 1986.

Total revenue last year was 8,410,150,000 yuan. After deducting 6,423,210,000 yuan in expenditures and certain other expenses, the province had a total surplus of 555.72 million yuan. Both the budgeted revenue and expenditure for this year are 6,716,570,000 yuan.

(Duan Bingren) said: The task of achieving this year's budget is very arduous. We must therefore strive to do the following tasks well: Further reform the financial setup; bring into full play the lever role of taxation in regulating the economy; do a good job in supporting poor areas; vigorously organize revenue; economize all capital expenditures; carry out a major inspection of taxation and finances; and strive to fulfill the task of subscribing for state bonds.

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ECONOMIC MANAGEMENT

TIANJIN VICE MAYOR SPEAKS ON INDUSTRIAL PRODUCTION

SK030144 Tianjin TIANJIN RIBAO in Chinese 20 Apr 86 p 1

[Text] On the afternoon of 19 April, Vice Mayor Nie Bichu spoke on the current industrial production at the sixth plenary meeting of the municipal government. He urged the whole municipality, from the higher levels down to lower levels, to seize the golden opportunity of the second quarter for industrial production, heighten the spirit, overcome difficulties, actively make progress, and guarantee a rational growth rate of our municipality's industrial production on the premise of improved economic results.

After analyzing the current situation in industrial production, Nei Bichu pointed out: We should successfully carry out the industrial production in the second quarter in the spirit of "going all out to catch up." In the course of arranging production, we should not only note the unfavorable factors but also favorable conditions and the increasing favorable factors. We are gradually adapting ourselves to the new situations and new problems arising in exercising macroeconomic control. Major difficulties in the supply of funds, foreign exchange, energy and raw materials, which existed earlier this year, have largely been alleviated thanks to the efforts of various fields. The production of a group of goods in short supply has been increased, and a group of new construction and expansion projects will go into operation and yield benefits. In particular, the masses are in a basically stable mood and their minds are at ease. It is totally justifiable for us to carry out industrial production more successfully.

How should we grasp well the current industrial production? Nie Bichu pointed out: First, we should overcome difficulties, actively make progress, and maintain and develop the good trend of sustained growth in our municipality's industrial production. The objective difficulties facing the current industrial production are a normal situation universally existing in the course of macroeconomic control, not an isolated phenomenon existing only for a short period of time. Leading cadres at all levels should have a correct understanding of and mental preparation for this, maintain a good mental attitude and a high morale for making progress through exploration, make a specific analysis of these difficulties, have a good idea of them, mobilize and organize the masses to conquer them, and promote the production of the second quarter and the whole year in a down-to-earth manner. Second, we should further improve and change our workstyles, and continue to strengthen the organization and management of production. Leading cadres at all levels should go into the

realities of life and to worksites, and directly solve specific problems in production that may arise at any time. While strengthening the organization and management of production, we should intensify the analysis of the economic trends, clarify the subjective factors affecting production, and accurately spot problems. All departments and units assigned to solve specific problems should make clear their responsibilities and duties, pay attention to actual results, and refrain from buck-passing, procrastination, and loss of opportunities. Third, we should give different guidance according to different cases, guarantee the key areas, and use our limited financial and material resources where they are most needed. We should mobilize and organize the forces from various quarters, and try all possible means--from the supply of electricity, funds, foreign exchange, and materials, ideological and political work, the deployment of cadres, and the improved responsibility system to various coordinated economic policies--to guarantee the production of goods in short supply and of the key enterprises which produce export products, create large amounts of profits and taxes, and affect the overall economic situation. In this way, the main part of our municipality's industrial production can be stabilized. In the meantime, key enterprises should all the more give play to their role of subjective initiative and never foster an idea of relying on others. Fourth, we should have good organization for the operation of completed projects, step up the production of the projects already put into operation, and make them yield economic returns as soon as possible. In the future, we should be strict when testing and approving construction projects, and never approve and cut the ribbon for any project which fails to yield the designed benefit because of construction problems. Technical transformation projects should reach the designed capacity within 2 years after they are put into operation. Fifth, we should improve and strengthen management. We should expedite the readjustment of product mix, greatly increase the production of the goods urgently demanded in markets, stabilize and upgrade product quality, reduce consumption, and exert great efforts to sell products and collect loans. Sixth, we should strengthen ideological and political work and conscientiously implement the responsibility system. At present, enterprises should use well the various encouraging policies granted by the state and the municipality, assign targets to every subordinate unit, make it responsible for the assigned targets, strictly examine the results, and ensure that industrious units are awarded and lazy ones are punished. We should particularly do a good job in ideological and political work and truly establish the economic responsibility system on the basis of the high awareness of staff members and workers. Seventh, we should show concern for the lives of staff members and workers, and do a good job in production safety. Leading cadres at all levels should try their best to successfully carry out the welfare related to the lives of staff members and workers. In the distribution of the public benefit of enterprises, leading cadres should be examples, and refrain from competing with the masses for more benefit. All units should improve security organizations and preventive measures.

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ECONOMIC MANAGEMENT

REGULATIONS ON FIXING PRICES ACCORDING TO QUALITY

Beijing JIAGE LILUN YU SHIXIAN [PRICE: THEORY AND PRACTICE] in
Chinese No 6, 20 Nov 85 pp 29-30

[An Outline by Ling Bin [0407 1755]: "Brief Introduction to Regulations on Fixing Prices According to Quality as Issued by the Various Departments of the State Council for the Period January to July 1985"]

[Text] Items of the Machine-Building Industry

The following are the results reported by the Ministry of Machine-Building Industry on 23 January 1985 of a reexamination of the quality of 842 products, which prior to 1983 had been appraised as "nationally excellent" and as "departmentally excellent:" (1) Items found up to standards totaled 625, or 74.2 percent of the total number of all such items. During the period of validity of their "excellent quality" designation, these products must use "excellent quality" markings, so that users may exercise supervision of their quality and to qualify for "excellent quality" and preferential pricing privileges prescribed in relevant documents. (2) Twenty-three products, i.e. 2.7 percent, were not up to relevant international standards or current standards and were disqualified as "excellent quality" products. (3) Twenty-three items, i.e. 2.7 percent, were outmoded products or products produced in small quantities, for which the factories on their own initiative proposed cancellation of the "excellent quality" designation and items which had not yet attained international standards, which, therefore, had to be taken off the list of "excellent quality" products. (4) Forty-five items were officially declared disqualified as "excellent quality" products and were found in need of updating and upgrading, 52 items were not accepted as up to relevant international standards, 10 items were one-time products, and for 41 items the period of validity had expired, making altogether 148 items in this category, or 17.6 percent, of all products under reexamination. (5) Twenty-three products, i.e. 2.7 percent, were still being examined.

Method of Appraising State-Designated Excellent Products

On 8 February 1985, the State Council approved and circulated "Some Provisional Regulations on Enhancing Technological Progress," drawn up by the State Economic Commission. The following is the gist of these regulations as far as they concern the appraisal of products as being state-designated

"excellent quality:" (1) The original system of having state-designated "excellent quality" products appraised as such by the State Commission for Quality Awards has now been changed to a system of having the said commission allocate certain numbers of items to be controlled by the various departments, trades and industries, whose quality award committees shall report their appraisal to the State Quality Award Commission for final approval. International standards must be applied in the case of state-designated excellent quality products (except in cases of uniquely Chinese characteristics). The organ authorized by the State Economic Commission to carry out these quality appraisals must establish on examination that the product in question is up to the advanced national level of the last 3 to 5 years. (2) State-designated excellent quality products should be selected from among products that have a major impact on the national economy. Ordinary products should be merely appraised as departmentally excellent quality products. (3) The appraisal and selection of state-designated excellent quality products shall gradually become a regular and scientifically performed practice. It is necessary to strengthen and build up as rapidly as possible a product quality appraisal center at the state level for the appraisal of important products, and to gradually establish a set of scientific sampling, testing, evaluation and appraisal procedures. (4) The supervision and control of state-designated excellent quality products must be improved. If quality declines, prompt measures must be taken to ensure improvement of product quality within a certain time limit, and, if necessary, the state-designation of excellent quality product shall be cancelled for the product in question, and notice of its adverse evaluation shall be circulated.

Grain

The "Plan for the Adjustment of Policy and Prices Governing the Procurement and Sale of Grain and Edible Oil in the Rural Areas," issued by the State Council on 13 March 1985, prescribes that, for the purpose of implementing the principle of higher prices for high quality and lower prices for low quality, all provinces, autonomous regions and directly administered municipalities may, figuring on the 1985 fixed purchasing quota quantities for the three large categories of commodities, and on the premise of not overstepping the general level of the "inverted 3 to 7" price ratio, appropriately raise the price ratio for easily saleable high-quality products and reduce the price ratio for low quality or sluggishly selling products. However, the price of nonglutinous rice must be controlled so as not to exceed the "inverted 2 to 8" proportion, with the wheat of North China not to exceed the "inverted 3 to 7" proportion, while the wheat of South China and the corn in the main producing areas may be allowed to appropriately fluctuate downward, attention being paid to dovetail all prices with those of neighboring areas. Well known high-class rice may be freed from controls, and its pricing left to market regulation. Seed grain produced by farms (households) specializing in the production of high-quality seed grain are not to be included in the system of fixed quotas of contractual purchases, but may be traded by the seed grain departments in charge, and may also be freely bought and sold. Because the principle of higher prices for high quality is to be observed when purchasing grain under fixed quotas, the system of advance mortgaging of certain well known high-class grain types for future procurement is not to be employed.

Coal

In the "Report on the Plan to Broaden the Regional Price Differences of Coal Under Unified Distribution and to Adjust Price Ratios Between Different Types of Coal," drawn up by the State Commodity Price Bureau and the Ministry of Coal Industry, approved and circulated by the State Council on 15 March 1985, it was decided to adjust the price ratios for different types of coal under unified distribution, including adjustments in the price ratios between 17 types of coal, such as coal concentrate, lump and slack coal, as well as the adjustment in the price parities between coking coal, fat coal, lean coal and brown coal. (1) The ratio of washed coal to raw coal was raised from the current 156 to 165 percent. (2) The present price for dressed coal, being 2 percent lower than for raw coal, is very unreasonable. The price for dressed coal will be raised to 5 to 10 percent in relation to raw coal. (3) Coking coal and fat coal are the main types of coal used in China's industry, but resources are limited, and the price ratio of coking coal and fat coal to ordinary coal for motive purposes will be adjusted from 110 to 120 percent. (4) The calorific capacity of lean coal is higher than that of long flaming bituminous coal, but its price is 15 percent lower than the price for long flaming bituminous coal, which is very unreasonable. In future the price parity will be raised from 85 to 95 percent. (5) The price originally fixed for brown coal is excessively low; its price parity will in future be raised from 80 percent to 83 percent.

Urban Public Transportation

In the "Report on the Improvement of Urban Public Transportation" of the Ministry of Urban and Rural Construction and Environmental Protection, approved and circulated by the State Council on 19 April 1985, it is pointed out that newly opened routes over urban main thoroughfares and routes serving mainly tourist traffic shall be equipped with high-quality cars. The principle of higher prices for high-grade service shall be applied, and no monthly tickets shall be sold.

Medical and Public Health Services

In the "Report on Certain Policy Questions Concerning Reforms in Public Health Work" by the Ministry of Public Health, approved and circulated by the State Council on 25 April 1985, it is pointed out that gradual reforms are to be effected in the current irrational system of charges. Presently, it may still prove difficult to carry out a universal adjustment of medical fee standards, and no large-scale adjustments will be carried out in 1985. However, a tariff of charges based on costs may be instituted in certain cases where new instruments and new items of equipment are used and where new medical treatment is given. In the case of newly constructed, renovated or expanded medical units with otherwise favorable conditions, medical fees may be appropriately raised. Sickrooms may be of different classes and charged at different rates. Different tariffs of charges may also be applied in case of special arrangements or at private clinics. In the case of collective or individual medical facilities, medical fees may be more flexible, allowing them a certain margin of profit. The specific items to be adjusted or the extent of adjustments may be determined by the various provinces, autonomous

regions and directly administered municipalities themselves according to local conditions.

Coal Gas

The "Report on the Accelerated Development of the Urban Coal Gas Industry" by the Ministry of Urban and Rural Construction and Environmental Protection, circulated by the State Council on 8 July 1985, points out that it is necessary to employ economic levers to arouse enthusiasm for the undertaking of coal gas development, and to follow the principle of higher prices for better quality. The principle on which coal gas pricing must be based is that the prices must preserve the principal investment and must yield a small amount of profit. Charges for civil use of gas must be slightly higher than expenses for burning coal. Charges for gas used for public welfare purposes shall be higher than the price of gas for private use, and rates for industrial use of gas shall be higher than rates for public welfare use of gas. Where the sources of gas are bought at high price, the gas will have to be sold at high price, but pricing must adhere to the principle that prices must be within the limits which the consumers can accept as bearable. Cities that newly undertake providing coal gas must at the start fix reasonable rates for their gas according to the above-stated principles that are to govern price determination.

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ECONOMIC MANAGEMENT

BRIEFS

ECONOMIC COOPERATION MEETING HELD--The first joint meeting of the Fujian-Guangdong-Jiangxi border region economic and technological cooperation zone was held at Longyan, Fujian, from 26 to 28 April. Representatives of Longyan in Fujian, Meixian in Guangdong, and Ganzhou in Jiangxi exchanged information on economic development and discussed questions of lateral economic ties between localities and enterprises. Representatives of the three areas and also of the technological consultative services company of the Ministry of Astronautics Industry, who were invited to attend, held extensive talks on technological cooperation projects in railroads, highways, energy, electric power, pottery and porcelain, minerals, grain, technical equipment, and commodity purchase and sales. Letters of intent regarding cooperation in 46 projects were signed. Longyan, Meixian, and Ganzhou constitute the border region of these three provinces. Economic development there has been relatively slow. In January this year, a responsible person of the Meixian Prefectural Commissioner's Office proposed the establishment of the cooperation zone, and this was agreed to by Longyan and Ganzhou prefectures. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 3 May 86 HK] /12766

CSO: 4000/1007

FINANCE AND BANKING

PRC OFFICIAL ON REFORM OF CHINA'S FINANCIAL SYSTEM

Hong Kong WEN WEI PO in Chinese 21, 22 Mar 86

[Abridged text of speech given by Zhao Haikuan [6392 3189 1401], director, Financial Research Institute, People's Bank of China, at the colloquium "Reform of China's Economic System" at the Asian Studies Center of the Hong Kong University: "Reform of China's Financial System"]

[21 Mar 86 p 10]

[Text] In the course of the reform of China's economic system, reforms were also actively pursued in the banking system. This writer is one of the participants in this reform. With this article I wish to give some introductory information on this reform and also express some views, which may serve students of the reform as reference.

Since the start of the reform of our economic system, and in line with the demands posed to banking work by the state's unified setup and the reform of the economic system, China's banks have indeed implemented a large amount of reform measures, among which the following are the main aspects:

1. The Initial Establishment of a Banking System With Government Administration Separated From Enterprise Management

Prior to the 3d Plenum of the 11th CPC Central Committee, domestic banking business in China was centralized in the People's Bank of China, which was China's currency issuing bank but which also transacted all ordinary banking business.

Since the start of the reform of China's economic system, the bank became burdened with more and more tasks, which made it necessary to set up several specialized banks and other credit institutions to take on certain sections of banking business. Finally, in the first half of 1979, the State Council decided to revive the Agricultural Bank of China as a specialized bank in charge of banking in the rural areas. In the same year, the State Council approved elevating and expanding the position and scope of business of the Bank of China, and, furthermore, decided that investments in capital constructions were gradually to be changed from fund allocations by the finance administration to bank loans, to be granted and managed by the Bank of

Construction. In 1980 the State Council approved the resumption of domestic insurance business by the People's Insurance Corporation of China, which thus became a company to handle all insurance business. Of particular importance was the State Council's decision of 17 September 1983 to have the People's Bank of China assume the special function of central bank, and the establishment of the Industrial and Commercial Bank to undertake industrial and commercial credit and savings bank operations, which formerly had been tasks of the People's Bank. Later, the state again authorized setting up on a nationwide scale more than 30 trust and investment companies at the provincial level. Thus, what basically had taken shape was a new banking system (perhaps to be called a financial system), composed of the People's Bank of China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the People's Construction Bank of China, the People's Insurance Corporation of China, the rural credit cooperative societies, the local trust and investment companies and other financial institutions.

In the new banking system, the People's Bank of China is central bank, currency issuing bank and the state organ through which the State Council guides and controls the entire nation's financial affairs. The Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the Construction Bank of China, the People's Insurance Corporation of China, the rural credit cooperative societies, and the other financial institutions are financial enterprises to handle certain particular aspects of banking business.

Establishment of the new financial system has created favorable conditions for the invigoration of banking business and for the strengthening of macrofinancial controls. The existence of this plurality of financial institutions helped strengthen guidance of banking business, provided a means of comparison of the quality of business operations among the financial institutions, and by a certain competition between them will increase pressure toward greater business activity and greater efficiency. At the same time, government administration is separated from enterprise management in the new financial system; the People's Bank is a state organ, while all financial institutions are financial enterprises. The People's Bank is, therefore, in a position to concentrate in its work on macroeconomic regulation and on the guidance of all financial work, while the specialized banks are able to employ the methods of enterprise management, to actively pursue various types of banking business, as demanded by the reform of the economic system, and thus to promote the invigoration of the entire economy, on the premise of an effective control of the macroeconomy.

2. Reforming the System of Controlling Credits

In the past, the system of controlling credits in China was highly centralized; deposits received by all banking institutions were centrally held by the head office for distribution and use. For loans, the head office would assign plan quotas, and it was not permissible to switch quotas among different credit requirements. Facts have proven that this system of unified control of deposits and loans, with its excessively meticulous and rigid control by the head office, was not conducive to stimulating enthusiasm among

the basic-level banks for increased efforts to obtain deposits or to do a good job of granting credits.

To overcome these drawbacks in the management of credits, to appropriately expand the self-determination of the basic-level banks and arouse their enthusiasm for increased and more effective credit operations, China, from 1979 on, began to manage credits on the basis of a balance between funds taken in and funds being used.

Although the method of control by such balancing is a certain improvement over the centralization of deposits and loans, since the absorption of more deposits will increase funds available for loans, always on the premise of not exceeding the balance, and will be apt to stimulate the enthusiasm of all specialized banks, it also gave rise to a number of new problems. The differential frequently grew too wide, and while the loan deficiency can still be made up, the central bank was unable to effectively control the scope of lending. To further improve the management of funds and strengthen the macrofinancial control, the central bank, from 1985 on, instituted a new method of credit fund control of the specialized banks. By this method the central bank, when determining the annual loan deficiency of the specialized bank, will at the same time set a limit to its loan of funds to the specialized bank. The branch bank of the central bank will then extend loans to the specialized bank within the limits set by its own bank, in line with financial policy and financial strength. The practice of one year has proven that the new method of controlling credits can indeed effectively control the scope of credits.

In addition to the above-stated reform of the system of controlling credits, efforts to invigorate banking business in recent years included the guided opening up of certain credit activities through market regulation, for instance, opening up commercial credits and trying out commercial credits by way of negotiable instruments. Enterprises were permitted to sell merchandise on credit, to advance loans, and also to try out the use of drafts as documentation of an obligation. The drafts could be discounted by banks.

With the approval of the authority in charge, enterprises can issue shares or bonds to raise funds in the market. In 1985 the Agricultural Bank of China and the Industrial and Commercial Bank of China also issued 1-year-term financial bonds at 10.8 percent annual interest.

The basic-level banks may mutually extend short-term loans to adjust mutual fund surpluses and deficiencies.

The trust and investment companies accept entrustments and transfer funds on behalf of units; they will grant loans or make investments according to the parties and for the purposes designated by the principal and according to the capital put up by him. They will act as agents for the issue of shares and bonds, take property in storage, rent out, or act on behalf of enterprises in renting out advanced equipment.

3. Expanding the Scope of Banks for Granting Loans

In this respect, comparatively important reforms have been made in the following areas:

(1) Fixed asset loans. It had been a long-standing rule in China that banks could grant only circulating capital loans, but not fixed asset loans to industrial and commercial enterprises. The role of banks in the fund operations of enterprises was thus limited to a comparatively small sphere, because as capital is being taken up by Chinese state-run industrial enterprises, over 60 percent is in fixed assets while circulating capital amounts to less than 40 percent. This is very detrimental to our socialist construction. Besides, the said rule lags far behind the world trend in banking business developments. Not only is there no such restriction on the banks of the Western countries, but the system has even been changed in the Soviet Union, which had originally introduced the system to us. They all grant circulating capital loans as well as fixed asset loans. In view of these facts, the People's Bank of China broke with the old restriction and began in 1979 to extend loans to enterprises for technological transformations and capital constructions.

The facts have shown that when the banks grant fixed asset loans, because of their widespread organizations and long-standing contacts with the enterprise in connection with deposit, loan, settlements and other business, the banks will be quite familiar with the history and actual conditions of the enterprises, and will as far as possible select loan projects which will yield good economic results. Loans are granted and repaid, interests are collected, and the banks that grant the loans will also have special staff to handle credit business with the enterprises. These staff will be in contact with the enterprises and in a position to exercise supervision over the loans from beginning to end, making sure that the loans will be used in a rational way. Compared with the allocation of funds by the organs of the financial administration, bank loans are more beneficial in that they ensure that the nation's capital funds are being used effectively to invigorate the economy.

(2) Granting loans to individual entrepreneurs. Following the 3d Plenum of the 11th CPC Central Committee, the individual economy made very rapid progress in China, an individual economy which is linked with the system of socialist public ownership. It played an important role in the development of social production, in improving the people's livelihood and in providing additional employment for our manpower, proving itself to be a necessary supplement to the socialist economy. The banks started granting loans to individual entrepreneurs precisely for the purpose of supporting this economic development. There are now many individual entrepreneurs, spread widely over the whole country. As the risk in loans to them is high, lending procedure must be strict. Granting these loans further enriches the loan operations of the banks and raises the responsibility of the banks in their loan operations.

4. Greater Attention to Interest Rates as Effective Lever

Interest rates constitute an important economic lever and an effective means by which the banks can regulate the national economy. However, prior to the

3d Plenum of the 11th CPC Central Committee, interest rates were little differentiated, rate differences were small and the rates were not changed over long periods of time, so that this economic lever was never truly brought into play. Taking the interest rates for loans to urban enterprises as an example, the same interest rates were applied, regardless of what kind of enterprise was involved and what type of loan was given. The interest rates of banks at that time were indeed nothing but "dead levers."

Since 1979, the banks substantially reformed the interest rate system, first of all raising interest rates by a large measure. The following table shows the changes in the main bank interest rates by a comparison of rates at the end of 1985 and at the beginning of 1979:

Types of Interest	1979 Rates (annual)	1985 Rates (annual)	Increase (%)
Deposits by urban and rural individuals:			
Current deposits	2.16	2.88	33
1-year fixed "	3.96	7.20	80
3-year fixed "	4.50	8.28	84
5-year fixed "	5.04	9.36	86
8-year fixed "	-	10.44	-
Circulating capital loans	5.04	7.92	57
1-year fixed asset loans	-	9.36	-

As a second step, interest rates were further differentiated, and a policy of differentiated interest rates was instituted. For instance, additional rates were added among the loans to industrial and commercial enterprises, such as interest rates for fixed asset loans, interest rates for overdue accounts, penalty interests for illegally encroaching on or diverting loan funds, floating interest rates, etc.

The reform of the interest system is playing a positive role in increasing the construction funds of the nation and in promoting the improvement of business management in the enterprises.

5. Introduction of Economic Accounting Systems in the Internal Operation of Banks

Prior to the reform, an erroneous "Leftist" ideology had prevailed in China for a long time with the belief that banks are service and supervisory organs of the national economy and need not bother about their internal trivial accounting. The "small" accounts of banks were thought of as something standing in opposition to the "large" account of the national economy, and no serious attention was ever paid to economic accounting in banks. Since the 3d Plenum of the 11th CPC Central Committee, as the reform of the economic system progressed, there has been some improvement of economic accounting in banks,

and starting in the first half of 1979 the "Provisional Regulations Governing Economic Accounting in the People's Bank of China" have been put into effect. These regulations prescribe that all basic-level banks must keep accounts of the utilization rate of credit funds, of work quality, of work efficiency, and of expenses and profits, and it is on the basis of the fulfillment of these norms that they will draw enterprise working funds.

There are, of course, still many problems in the current economic accounting procedure of the banks, problems that await solutions in the theoretical as well as in the practical field. However, it is gratifying that the first step has been taken, thereby laying the foundation for further reforms in the future.

6. Initial Employment of Economic Means To Exercise Macrofinancial Control

After the initial invigoration of the national economy and banking, the People's Bank of China as central bank is now gradually attaching greater importance to the use of economic means for the control of the macroeconomy. It is by increasing or reducing loan quotas to specialized banks, by changes in interest rates and in the deposit reserve fund rate that the bank controls the amount of currency and the scope of loans. In 1984, because of the excessively large capital constructions, consumption funds increased too fast. Furthermore, conditions were not yet sufficiently developed for the exercise of macroeconomic controls by merely economic means, so that controls were ineffective, and the macrofinancial situation got somewhat out of hand. In order to effectively strengthen the macrofinancial control, it still became necessary in 1985 to increase certain administrative means, such as command-style planning in the direct control of the overall amount of lending by the specialized banks, etc., but economic means were also sharing in the improvements and strengthening of controls. For instance, the level and structure of interest rates were adjusted, deposits were scrupulously turned in into the deposit reserve fund, and the earlier mentioned reform of the credit fund management system was carried out. All this has laid an initial foundation for the gradual transition in China to a system of mainly using economic means to effect macrofinancial control.

[22 Mar 86 p 10]

[Text] Progress in the reform of the banking system is determined by progress in the reform of the economic system. In the "Proposal of the CPC Central Committee for the Seventh 5-Year Plan for Development of the National Economy and for Social Development" it is pointed out: "To guarantee the successful realization of the Seventh 5-Year Plan and an even more extended sound and harmonious development of China's national economy, it is most important to act in accordance with the "Resolution" of the 3d Plenum of the 12th CPC Central Committee, namely to move forward, unswervingly as well as carefully and steadily, in our reform of the economic system and to strive to lay the basic foundation for the coming 5 years, or for an even longer period of time, for a socialist economic system with Chinese characteristics, full of vigor and vitality." This is also the principle that is to guide progress in the reform of the banking system. We too must lay the foundation for the accomplishment of the final objective in our banking reform within the above-

mentioned period of time. For this purpose, it will perhaps be necessary in the coming reform of the banking system to take further measures in the following directions, basing on the achievements of the first stage of the reform:

1. Improvement of Our Macrofinancial Control To Rely Mainly on Economic Means

The People's Bank of China, in its capacity of central bank, is one of the most important organizations for macrofinancial control. On the basis of the growth rate of the GNP in the particular year, on the probable extent of commodity price increases and on other similar factors, the bank must compute at the beginning of each year at what rate the currency supply will have to be increased. It must, furthermore, compute, according to the historically normal proportion between currency supply and total amount of loans, to what extent the overall amount of nationwide loans must be increased. And again, it must compute, on the basis of the normal proportion between the total amount of loans and the amount of re loans by the central bank, the amount needed by the central bank for its re loans. These factors, after approval by the State Council, must serve as basis for the macrofinancial control to be exercised by the central bank.

Based on the conditions of economic developments and of the currency circulation in the market, the central bank must control, in the course of the year and within the approved amount of its re loans, the overall amount of loans, and exercise this control by means of adjusting interest rates and the rate of deposits required to be made into the deposit reserve fund, and hence control the total amount of social currency supply and achieve the objective of a macrofinancial control.

The inflexible requirement of loans for such procurements as grain and cotton must be made separate items, for which the head office of the People's Bank is to provide funds. For fixed asset loans and township enterprise loans, the specialized banks must be given special quotas, which must not be exceeded without special approval. As to loans for other purposes, these must be provided by the specialized financial institutions within the limits of their own financial strength. Their ability to make loans will depend on the amount of deposits or loan repayments they take in. The central bank will not limit such loans by loan quotas, nor will it be responsible for loans granted by the specialized financial institutions in excess of what was permitted within the framework of the macrofinancial regulation. The specialized financial institutions must also extricate themselves from responsibility for capital requirements they have assumed for enterprises.

The People's Bank of China must strengthen the development of a legal system dealing with financial matters, establish sound financial rules and regulations, and also laws and regulations on auditing and it must also strengthen auditing work. The business activities of all specialized financial institutions shall be subjected to periodical and irregular audits and investigations, and any irregularities discovered shall be severely dealt with, so as to ensure an effective macrofinancial control.

2. Continuous Opening Up and Invigorating of the Economy; Strengthening the Vitality of Our Financial Undertakings

With respect to these problems, we may consider the following:

In view of the objective demands posed by the reform of our economic system and by the socialist construction, we must further expand the scope of business activities of our banks, increase the variety of business operations and broaden the authority of the basic-level banks. All specialized banks shall effectively handle the business of granting loans to state-run and collective-run enterprises, and at the same time actively conduct deposit, loan and account settlement business for the individual economy. They shall completely include the individual economy in the sphere of banking business activities. Commercial credits shall universally assume documentary forms, and the specialized banks shall deal with the business of discounting bills, while the central bank shall rediscount such bills. Further efforts shall be made to increase saving deposits from urban and rural citizens; saving deposits may be handled by all specialized banks, credit cooperative societies and post offices. As soon as possible an electronic computers network shall be set up, credit cards shall be introduced, and depositors shall be afforded more active services by facilitating their deposits and withdrawals. In the settlement of accounts, payment by checks should be tried out in transactions with individual industrial and commercial entrepreneurs and individual persons. In economically developed areas and areas of tourism traveller's checks shall be introduced on trial. The settlement of accounts of neighboring areas with good communication facilities shall be changed from "out-of-town" to local settlements.

When subjected to the macrofinancial control of the central bank, and on the premise of observing the state's credit policy, all specialized financial institutions shall be authorized to grant loans at their own discretion, while at the same time bearing full responsibility for the risks involved in the loans. Within a certain scope, overlapping of business operations between the various specialized financial institutions shall be permissible. They shall be encouraged to compete with each other in attracting deposits, in the service to their customers and in the improvement of their business management, so as to increase external pressures on them and in the interest of invigorating banking business.

With the approval of the People's Bank, the specialized banks and trust and investment companies may issue debentures to raise funds from among society in general.

Commercial drafts may be discounted, debentures may be traded, financial organizations may extend short-term loans to each other. Under the direction and control of the People's Bank, a variety of financial tools may be used to actively develop horizontal financial accommodation and to promote the gradual formation of a capital market.

Where need exists in large and medium-sized cities, credit cooperative societies may be set up to handle deposit accounts, loans, saving accounts, insurance and money transactions for the urban small-scale collective economy

and for individual entrepreneurs. As required by the developing economy, and with due approval by the head office of the People's Bank, the establishment of further banks may be considered. All financial institutions must submit to the guidance and control of the People's Bank, must observe state policy and according to regulations make payments to the deposit reserve fund at the People's Bank.

3. Instituting Enterprise-Style Management in Specialized Banks; Increasing and Invigorating Internal Drive in the Banking Business

Whether the specialized banks will be able to institute enterprise-style management is a factor that will decide whether banking business can be invigorated and whether macrofinancial control can possibly be achieved. If it is intended to have the specialized banks achieve enterprise-style management, it is again necessary to provide a correct solution for the problem of coordinating the interests of the specialized banks with the overall interests of the state. In order to encourage people to actively open saving accounts, to turn consumption funds into production funds, to increase the amount of construction capital, to retard purchasing power embodied in these amounts of currency, and to effectively regulate the currency circulation in the market, the state has prescribed under the current system comparatively high interest rates for long-term fixed deposits. From the viewpoint of the overall interests of the state, this is absolutely necessary, but this causes an upside-down situation in the interest rates, which is a detrimental factor in the economic accounts of the specialized banks. The current interest rates for fixed deposits for 3 or more years are higher than interest rates for circulating capital loans, and specialized banks that would take in these long-term deposits would lose money. As to loans by banks, the state prescribes that comparatively low interests shall be charged to enterprises that are well managed, work with low production costs and have quick turnover of capital or which produce products of great significance. Enterprises that are badly managed, work with high production costs, have a slow turnover of capital, and require relatively large loan capital, or enterprises that divert capital to irrational uses or that are unable to repay loans on due dates shall be charged high interest rates. These measures should encourage enterprises to improve their business management and increase manufacture of products needed by the nation. However, if enterprises with good management increase, enterprises with bad management decrease and macroeconomic results improve, the interest income of the banks will decline. In the opposite case, if well-managed enterprises decrease and badly managed enterprises increase, it will possibly increase the interest income of the banks. Under this system of interest rates, instituting free enterprise-style management in the specialized banks will possibly have the effect that they will become reluctant to accept long-term saving deposits, as they will in that case rather grant more of the high-interest loans and grant fewer loans for items which might be of the greatest significance for the construction of the national economy, for which they would be required to charge interests at preferential rates. Acting in this manner would harm the construction of our national economy.

To overcome this contradiction, it will be necessary, when conditions have matured, to radically change the current system of interest rates. The

central bank shall determine only the key interest rates and the upper and lower parameters of fluctuation, while specific interest rates shall be fixed by the specialized banks themselves within the parameters of fluctuation. Before this is done, the central bank should as soon as possible decide on a procedure to coordinate interests, so that the interests of the specialized banks, when attracting credit funds and when using credit funds, will coincide with the overall interests of the state. By allowing the specialized banks to adopt business activities according to their own interests, we shall implement the macrofinancial policy decision of the central bank and effectively promote the construction of our national economy. We must also establish more or less conformity between the profits of the specialized banks and the extent of their professional efforts; profits computed in proper business accounting will stimulate the business activities of the specialized banks.

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FINANCE AND BANKING

STATUS OF FOREIGN DEBTS DISCUSSED

Hong Kong WEN WEI PO in Chinese 10 Apr 86 p 10

[Article by Wu Nianlu [0702 1819 7627], deputy director, International Monetary Research Institute, Bank of China: "The Status of China's International Indebtedness"; an abridged version of a speech given at the symposium "China's Foreign Trade and Investments"]

[Text] Since the 3d Plenum of the 11th CPC Central Committee in 1979, under the general and specific policies of invigorating the domestic economy and opening up to the outside, China has achieved initial successes in the utilization of foreign capital.

The 3d Plenum of the 12th CPC Central Committee in 1984 passed the resolution on the "Reform of the Economic System," thus reaffirming China's fundamental policy of opening to the outside, a principle which was restated by the CPC National Congress in 1985.

Forms of utilizing foreign capital and channels for foreign capital show great diversity. It is intended here to introduce briefly the status of China's international indebtedness and the way it is managed.

During the period of the First 5-Year Plan, due to the economic blockade of China by Western countries, China mainly borrowed from the Soviet Union. These repeated loans, in rubles, amounted to about \$1,427,000,000 equivalent in American dollars and served the construction of 156 projects. A part of China's industrial capital constructions has been accomplished with Soviet loans. Principal and interests of all these loans were basically repaid by 1965. At this time, China's economic assistance, loans at low or no interest and gifts of money and materials to certain developing countries amounted to several billion dollars, by far exceeding China's loans from foreign sources.

In recent years, in the wake of China's opening up to the outside and the development of its international economic, trade and technological intercourse, China's loans from Western countries assume a greater diversity of forms. Apart from short-term loans in connection with general import and export trade, China, from 1979 to 1985, signed foreign loan agreements to the amount of \$20.3 billion and commodity credit agreements to the amount of \$1.762 billion. Of these amounts, \$15.6 billion of foreign loan funds and \$1.340 billion commodity credits have actually been used. In 1985, the amount

of foreign loan agreements was \$3.530 billion and of commodity credit agreements \$365 million. The following are further details:

1. Loans from International Financial Organizations

China borrowed from the International Monetary Fund \$309 million trust fund loans and \$450 million first line credit. All these loans were paid back by 1984.

Loans contracted with the World Bank amounted to \$3 billion (of which \$1.77 billion were hard loans, or 61 percent, and \$1.2 billion were soft loan special drawing rights, or 39 percent. The amount of hard and soft loans actually used up to now is only one-third of the total, namely \$880 million).

Loans contracted with the UN's International Fund for Agricultural Development amount to \$85 million, which are mainly being used for the improvement of the northern grasslands, development of animal husbandry and improvement of saline-alkali soil. Of this loan, only somewhat over \$8 million have actually been used by 1985.

Loans from international financial organizations have the advantage of favorable interest rates and extended terms. In the case of the World Bank loan, a systematic, comprehensive and strict system and method governed the selection of the projects in question and their appraisal, and extended to the execution and supervision of all projects, which, moreover, were accompanied by technological assistance, so that the effectiveness ratio of the loan projects and their economic results were very high.

2. Loans from Foreign Governments

At present, the governments or official finance organizations of 15 Western states have agreed to grant China credits amounting to a total of about \$5 billion. Most prominent is the \$1.5 billion loan for projects of the Japan Cooperation Fund. Japanese loans for energy sources amount to \$1.7 billion, and a series of Japanese commodity credits amount to \$800 million. The balance is made up of loans or credits from Denmark, Kuwait, Belgium, Italy, Switzerland, Sweden, Norway, Great Britain, France, Austria, Canada, Spain, and Australia.

Government loans are at favorable conditions and for long terms; some stipulate extended periods and low interest rates, some prescribe the scope within which the loans are to be used, some are linked with specific projects, some are to be used as the project progresses item by item. Government credits are granted to promote economic, trade and general friendly relations between the two governments and have a certain assistance nature.

To further promote the development of international trade, foreign loans are used for certain long-term imports for key construction projects. Certain governments use a mixture of government credits, buyer's credits, and loans by banking consortia. This may reduce the overall level of the loan interest rates. Some loans are linked with import projects, and are to be actually

used as and when items are imported. Some loans can be freely used. Some of such countries are Japan, Austria, Sweden, Italy, Switzerland, France and Australia.

3. Buyer's Credits

Since 1980, the Bank of China has at different times concluded overall agreements for purchase credits with 10 British banks, 19 French banks, 6 Italian banks and 13 Swedish banks, and also concluded agreements for purchase credits with specific banks in Canada, Australia, Belgium, Norway, Argentina, Denmark, the United States, with the West German Reconstruction Bank and the Export-Import Bank of Japan. For extended loans, the terms were from 5 to 10 years, and interest rates were fixed according to the standards of the OECD organization. Up to now, more than \$1.7 billion have actually been used.

4. Loans from Nongovernment Financial Organizations

The Bank of China, the International Trust and Investment Corporation and other financial institutions have concluded short- and medium-term bilateral loan agreements with certain Western commercial banks to raise funds and as a source of funds for domestic or foreign exchange loans.

5. Inward Transfer of Deposits from Abroad

The head office of the Bank of China is also bringing in available funds from its overseas branches by attracting deposits from residents in the areas in question and through other means.

6. Raising Funds Through Bonds

From 1982 to February, 1986, China has made 15 bond issues of different nature in Japan and Western Europe to the amount of \$1.260 billion. Refer to the following table for details:

DATE	ISSUED BY	AMOUNT (bn)	TERM (yrs)	FACE INT.RATE(%)	ISSUE PRICE	ACTUAL YIELD(%)
Jan 82	CITIC	Y10(p)	12	8.7	100	8.7
Aug 83	FIEC	Y 5(p)	10	8.5	100	8.5
Nov 84	BoC	Y20	10	7	99.65	7.059
Jan 85	CITIC	Y30	10	6.6	99.65	6.675
Apr 85	BoC	Y20	10	7.1	100	7.1
May 85	BoC	DM0.15	7	7	100	7
Jul 85	CITIC	HK\$0.3	5	9.375	99.90	9.4013
Sep 85	BoC	Y30	10	6.1	99.85	6.124
Sep 85	CITIC	DM0.15	6	6.625	99.75	6.6774
Sep 85	BoC	\$0.15	10	10	100	10
Sep 85	BoC	\$0.2*	5	LIBOR**	100	LIBOR
Dec 85	FIEC	Y10	10	7.1	100	7.1
Dec 85	CITIC	\$0.1	10	9.625	100.75	9.5053
Jan 86	SITIC	Y20	10	6.7	100	6.7
Feb 86	CITIC	Y40	10	6.3	99.70	6.349

[NOTE: Issuers are China International Trust and Investment Corp; Fujian Investment Enterprise Co; Bank of China; Shanghai International Trust and Investment Corp. *Deposit certificates with floating interest rates. **Floating interest rate]

It is obvious from the above that the Bank of China, in its capacity of special state bank for foreign exchange transactions, is the main channel for China's foreign loans. In the course of its own business activities, the Bank of China is raising foreign exchange funds at the most favorable conditions possible. The objective of the Bank of China in raising funds is, first, to support the nation's four modernizations, with the main emphasis on the support of projects concerned with the development of energy sources, of the means of communication and in connection with projects for the technological transformation of medium and small scale enterprises, i.e., cases with short turnover of funds and production of export goods which create foreign exchange revenue. A second objective is to supplement the foreign exchange reserve of the state, improve China's ability to make foreign currency payments and to improve its turnover rate.

After several years of practice, we now realize that there are certain favorable conditions for raising loans in the international financial market in the name of the Bank of China. This is so because the Bank of China has developed from its past activities of mainly handling international settlements to a bank of international commerce, a foreign trade bank, investment bank, export credit bank and a foreign exchange bank with a great variety of business functions, mainly raising funds and providing short-term loans and credits, but also engaged in leasing, entrustments, consulting services and investments. The bank has a long history and enjoys a very high international reputation. It has a complement of specialized and well qualified staff and has had many years of experience in raising funds. It has, furthermore, basically established a worldwide organization and agency network, capable of promoting domestic and foreign business activities, and has an excellent understanding of the movements and information in the international financial market, which it utilizes highly effectively. The bank is therefore in a position to raise foreign funds in a planned way at the opportune time, in a variety of forms and through a variety of channels.

As to requirements for short-term loans, the Bank of China, with its modern equipment, maintains close daily contacts with the financial markets of all countries and engages in direct short-term loan transactions with foreign banks.

When raising funds, we combine long-, medium- and short-term funds and, as to interest rates, establish an appropriate proportion of capital at fixed and at floating interest rates. As to the currency of the loans, we consider both the problem of demand for the desired currency and the problem of the risk of its exchange rate.

Utilization of foreign commercial loans is work of a strong political and technical nature; it requires an investigation of the project for which the

loan is intended, and requires strict management and supervision, to ensure that the project conforms to the demands of the development of the national economy and can produce comparatively favorable economic results.

Of course, there are borrowers and lenders involved in international loans. At the same time as the Chinese government is utilizing foreign capital, it is also continuing to grant to friendly developing nations a certain amount of economic assistance and loans at favorable conditions. The key policy of the Bank of China in granting loans abroad is that, to the extent that such capital can be absorbed, the loans will actively support China's increased contracting for engineering work abroad, support tourism and also the "three-capital" enterprises (Chinese-foreign joint ventures, cooperative management enterprises and foreign-finance enterprises). But, we demand that China's contracts for engineering projects abroad must as far as possible be projects paid for in cash, and as few as possible, or no projects at all, with extended payment terms. Guarantees provided by the Bank of China must also in future be appropriately controlled, and loans to "three-capital" enterprises must in future primarily support projects which can balance their foreign exchange, which are technology-intensive, which are productive and capable of creating foreign exchange revenue.

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FINANCE AND BANKING

HIGHLIGHTS OF 1986 STATE TREASURY BONDS

Beijing CAIZHENG [FINANCE] in Chinese No 3, 8 Mar 86 pp 13-14

[Text] In the interest of a successful issue of the 1986 treasury bonds, the office of the Central Commission for the Issue of State Treasury Bonds compiled an "Outline of Propaganda on Behalf of the Issue of the 1986 State Treasury Bonds," of which the following is a summary:

1. Issue of Treasury Bonds as an Important Measure To Raise Construction Funds

China began at the start of the 1980's to issue treasury bonds, which during these 5 years amount to 23.7 billion yuan and have played a major role in enhancing our key construction and in promoting the development of our national economy.

Today, as the construction of China's socialist modernization enters the period of the Seventh 5-Year Plan for national economic and social development, our situation is in all aspects very good. Industrial and agricultural production is continuously increasing in a steady and proportionate manner, new developments take place in all constructive undertakings, the country's finances are well balanced, and there is a marked improvement in the urban and rural standard of living. Why should we under favorable conditions like these still continue to issue treasury bonds? For the reason that China is still a developing country with a comparatively backward economy. Insufficiency of capital for key constructions will for some time to come still be an acute problem, restricting the development of our national economy. The solution of the problem of insufficient capital for our socialist construction must first of all rely on the various taxes paid by enterprises and by the people to the state treasury; this is the principal measure. Second, we must also issue treasury bonds and utilize foreign capital. Thus, the issue of treasury bonds is one of the major means of the state to raise capital for the accomplishment of the four modernizations. It is for this reason that the State Council, after a full analysis of China's economic condition and developmental trend during the Seventh 5-Year Plan period, decided to continue issuing treasury bonds during the Seventh 5-Year Plan period, to gather in a portion of the social capital and to strengthen key construction that will ensure accomplishment of the strategic tasks outlined for the Seventh 5-Year Plan period.

2. Issue of Treasury Bonds as an Important Means of the State To Effect Macroeconomic Adjustments

The issue of treasury bonds diverts to the state the extrabudgetary funds of the enterprises and a part of the purchasing power in the hands of the people, which means that it will increase investments in the nation's key constructions without increasing the currency supply or the total purchasing power of the society as a whole. It promotes economic development without reducing the wealth of units or of the masses. The issue of treasury bonds is, furthermore, an important means of the state to effect macroeconomic control and to regulate the scope, structure and direction of investments during the ongoing economic construction, to regulate the proportionate relation between accumulation and consumption in the national economy and to regulate the issue and circulation of currency.

3. The Issue of Treasury Bonds Over Long Periods of Time Will Not Increase the Financial Burdens of Units or of the Masses

Some comrades have voiced concern whether the continuous issue of treasury bonds by the state and raising funds from among society at large will adversely affect the technological transformation of the enterprises and the improvement of the living standard of the people. We say that it will not, because China's economy has progressed very fast in recent years, and free capital held by the enterprises and income of the masses has increased very much. Since 1981, extrabudgetary funds throughout the country increased at the rate of over 20 percent per year. It is estimated to have reached an amount of over 140 billion yuan by 1985, increases that exceeded the increases of the state's budgetary revenue. At the same time, there was a steep rise in the country's consumption capital. In 1984 all salaries and wages throughout the country amounted to over 113 billion yuan, an increase of over 19 billion yuan over the preceding year, and an increase at the rate of 20.1 percent, far in excess of the 7.8 percent increase in productivity in industrial enterprises during the same period. Savings deposits of the urban and rural population continuously increased over the last few years. In 1984 alone deposits increased by over 32 billion yuan, and for 1985 it is estimated that the increase will be around 30 percent over that of the preceding year. On the other hand, the treasury bonds issued in 1986 will amount to 6 billion yuan, 2 billion yuan to be taken up by units and 4 billion by individuals. These bonds account for only a very small portion of the state's budgetary revenue, and of the income and saving deposits of the urban and rural population. They will have no adverse effects on the technological transformation of enterprises and on the living standard of the people. Furthermore, from 1986 on, the state will begin to repay the principal and interests of treasury bonds issued in previous years. As the free capital of units and the income of the urban and rural population continuously increase in the wake of the development of production, there is a continuous increase in the capacity of the units and the masses to shoulder financial burdens.

4. Every Unit and Every Citizen Is Duty Bound To Subscribe Enthusiastically to Treasury Bonds in Support of the Four Modernizations

The goal of China's socialist modernization is the continued improvement of the material and spiritual living standards of the people by the further development of production and by raising productivity. Although the excessive scale of extrabudgetary investments in fixed assets and the steep rise in consumption capital have been currently somewhat rectified, no radical change for the better has so far been achieved. No radical solution can possibly be found within a short period of time for the shortcomings in our energy sources, and in the traffic, communications, raw and semifinished materials situation or for the shortages of capital for key constructions. This situation not only hampers economic development and obstructs progress in our reforms, but also has an extremely detrimental effect on the development of enterprises and the further improvements in the living standard of the people. The issue of treasury bonds temporarily borrows a portion of funds now held by units and by the masses to be used to strengthen investments in the key constructions and in the infrastructure of the state, which will lay a solid foundation for the future development of the economy. This is not only an interest of the state, but also a vital long-range interest of every unit and of the whole people. Every unit and every citizen in China is duty bound to subscribe enthusiastically to treasury bonds in support the four modernizations, which would also be the concrete expression of a patriotic spirit.

5. Interest Rates for Treasury Bonds Have Again Been Raised Out of Due Consideration for the Economic Benefits of the Buyers

The purpose of the masses in buying treasury bonds is to support national construction, but the state, on the other hand, also gives due consideration to the economic interests of the buyers. The annual interest rate for treasury bonds bought by units, which last year was 5 percent, has this year been raised to 6 percent. This is higher than the interest rate for fixed deposits for a 3- or more-year period. The annual interest rate for bonds bought by individuals was raised from last year's 9 percent to this year's 10 percent, which is also higher than the bank interest rate for deposits of the same duration. Persons buying 1,000 yuan of treasury bonds will be paid back in one amount after 5 years, and their principal and interests will then amount to 1,500 yuan. Purchases of treasury bonds by units and by the urban and rural masses are on the one hand supporting the four modernizations by practical action, and are also on the other hand providing certain economic benefits. Their purchase is an action that is in the interest of the state and in one's own interest, a good action in that it benefits the state as well as the people.

6. Key to the Successful Accomplishment of the Task of Issuing the Treasury Bonds Is Thoroughgoing and Painstaking Work

Key to the successful accomplishment of the task of issuing the 1986 treasury bonds is the need for governments at all levels to strengthen their guidance of the work of selling the bonds, to have them perform this work in a thoroughgoing and painstaking way and to have them ensure that the task of selling the bonds will be accomplished. For a successful conclusion of the work of selling the 1986 treasury bonds, we shall have to pay attention to the following few questions:

(1) We must conscientiously perform, and perform well, the work of propagandizing and of mobilizing the people. In the last few years, the work of propagandizing and mobilizing the masses has achieved certain successes and has been very effective in ensuring overfulfillment of our tasks, but at some places propaganda is being conducted neither in depth nor painstakingly, but in a dull manner. Some units go in for it in a casual way, giving attention merely to getting over with the task, without any propaganda, so that some people are left befuddled about the significance of the issue of treasury bonds. Leading comrades of the central authorities have repeatedly pointed out that the raising of funds by treasury bonds is an important measure to speed up the four modernizations, and that buying treasury bonds in support of the four modernizations is the duty of every single unit and citizen. These points were again emphasized in the "Regulations Governing the Issue of the 1986 Treasury Bonds of the PRC," issued and circulated this year by the State Council. It is imperative that leading comrades at all levels and all comrades engaged in the sale of treasury bonds transmit this spirit, through whatever channels there are, to the thousands upon thousands of households throughout the country. Wherever there are problems in the understanding of the issue among the masses, it is hoped that the comrades in charge of selling the treasury bonds will provide explanations and clarifications that integrate the particular conditions of the local situation and aim precisely at the problems involved. Currently, all places are conducting education on the present situation. We should combine the work of propagandizing the treasury bonds and mobilizing the masses for their purchase with the education currently being given on the present situation, making propaganda for the issue of the treasury bonds a part of the ongoing education on the present situation. At the same time all places could also make the active subscription to treasury bonds in support of the four modernizations a part of the work of those units that are engaged in building up our spiritual civilization and in education in our ideals, so as to foster among the masses a glorious sense of honor in the enthusiastic subscription to the treasury bonds in support of the four modernizations, and also to arouse the patriotic fervor among the broad masses of the people and thus ensure the accomplishment of the task of selling the treasury bonds.

(2) To accomplish the task of selling this year's treasury bonds, a distributive issue system was employed. The units were allotted their task according to a certain proportion of their extrabudgetary funds or according to the amount of profits after taxes retained by collective enterprises. The urban and rural citizens were allotted their tasks generally according to a certain proportion of their incomes. Every effort should be made to allot tasks everywhere in a rational way. In the case of units, the rational allotment should be based on an investigation of their financial strength. The allotment of tasks to units is of the character of an assigned procurement; it is imperative that each unit attach importance to the overall situation, make advance arrangement for the necessary funds to purchase its treasury bonds and punctually, as required by regulations, pay the required amount to the treasury; there must be no delay. The task of selling the bonds to staff and workers must be based on effective political ideological work. This task shall be allotted to the units in question in accordance with the total amount of salaries and wages of their staff and workers, or in

consideration of the different levels of salaries and wages. The units may fix the allotments for their various teams and groups or for individual employees and workers, using the method of either having their staff and workers voluntarily subscribe or of proceeding on the principle of having each person buy bonds according to his particular larger or smaller capability. No allotment of a purchasing task should be made in the case of the small number of comrades who have genuine difficulties in their livelihood or who have no purchasing power. Every unit or individual must punctually fulfill the purchasing task allotted by the state.

Sales of treasury bonds in the rural areas in the last few years had achieved very good results by a method that combined universal mobilization with sales in key areas. We should continue this sales method in future. In particular, further raising the interest rates for this year's bonds above the bank rates for deposits for the same period of time should make it all the more possible to arouse the purchasing enthusiasm of the many well-to-do peasants and provide favorable conditions for their mobilization to buy more treasury bonds. In case of the general type of places and peasants, each locality may appropriately allot certain treasury bond tasks according to its specific conditions. No treasury bond allotments should again be imposed on poor districts and poor peasants.

The smallest denomination of this year's treasury bonds is again 5 yuan; no purchase balance of any staff, worker or peasant household should be for a smaller amount than 5 yuan. Those unable to make a purchase of 5 yuan may be exempted from purchasing treasury bonds.

3. The work of issuing treasury bonds is a long-term task of the future. Everywhere committees for the sale of treasury bonds and their working organizations should be appointed on a regular basis. Their complement of staff should be relatively stable and where staff is inadequate, it should be appropriately replenished. The financial departments at all levels should act in the spirit of the State Council circular and set up permanent work organizations, staffed with the necessary number of special employees.

4. The work of issuing treasury bonds involves a wide field and requires close coordination between all departments concerned. Especially in the matters of issuing the bonds and of repaying principal and interests, the regulations governing the treasury bonds already stipulate clearly that these matters shall be handled by the People's Bank of China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China and their subordinated organizations. In its circular regarding the regulations governing the 1986 treasury bonds, the State Council had clearly pointed out: "Banks at all levels shall incorporate the work of issuing treasury bonds into their regular business operations, and perform this work conscientiously and efficiently. The propaganda departments at all levels shall work in close coordination and strengthen their propaganda and guidance work." It is therefore hoped that the comrades in the departments concerned will conscientiously implement the spirit of the State Council circular, further strengthen cooperation and jointly do a good job of issuing the treasury bonds.

5. If some people do not want to buy treasury bonds at their units, but rather buy them directly at banks, this is permissible. All banks shall render facilities and maintain secrecy for direct buyers in the same manner as in the case of saving deposits.

INDUSTRY

SHANGHAI EXPANDS SHIPBUILDING, SHIPS EXPORT

HK260749 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0158 GMT 23 May 86

[Report: "Shanghai Has Become China's Most Powerful Shipbuilding and Ships Export Base"]

[Text] Shanghai, 23 May (Zhongguo Xinwen She)--Some 20 shipyards along Huangpu Jiang in Shanghai constitute China's most powerful shipbuilding and ships export base.

This huge shipbuilding base is turning out a large number of missile escort vessels, antisubmarine excort vessels, and other new-type naval vessels.

During the Sixth 5-Year Plan period, Shanghai built 442 vessels for domestic use and foreign ship merchants, accounting for about half of the total tonnage of the China shipbuilding Industrial Corporation.

In the coming 5 years, China will build six bases for exporting ships, the four major ones of which are the Jiangnan, Zhonghua, Shanghai, and Hudong shipyards. The State Council has approved the expansion of foreign trade authonomy of shipbuilding enterprises in Shanghai.

In recent years, Shanghai has introduced from many countries shipbuilding technology and production managerial methods of advanced international standard. It has bought the patents for the world's most advanced ship diesel engine technology from Switzerland, Denmark, and the FRG as well as the patents for ship generating units and deck machinery from Britain, France, and Japan. Shanghai can now manufacture ships according to the requirements of the main ship classification societies in the world.

Shanghai is now building two ships each with a tonnage of 60,000 and will complete the building of seven ships each with a tonnage of 10,000 this year, the total tonnage being 264,000. Meanwhile, it is starting to build 11 other ships each with a tonnage of 10,000. The variety of ships is undergoing a change from bulk cargo ships to container ships, unmanned cabin bulk cargo ships, multipurpose ships, and tri-puopse working ships.

The "Yuanwang" and "Xiangyanghong No 10" survey ships, both designed and built by the Shanghai Jiangnan shipyard and the China Ships and Uu Engineering and Design Research Institute, have taken part in transporting rockets. In the investigation concerning the launching of synchronous telecommunications satellites, and in surveying the South Pole. In particular, the building of the "Yuanwang" survey ship and its success in fulfilling its tasks have been acclaimed by astronavigation circles in the country and abroad as a milestone in China's astronavigation history. Shanghai is now building for the FRG two new-type ships for transporting cars each with a tonnage of 24,000 and the new-type 64,000-ton bulk cargo ships being built for a Hong Kong compnay has the largest tonnage of any ship ever built by Shanghai.

Lu Shansen, manager of the Shanghi shipbuilding industrial company, said: The international ship market will not remain depressed forever, and Shanghai will make good preparations in various aspects of its shipbuilding industry for the arrival of the emerging period of navigation.

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CONSTRUCTION

PRC PORT CONSTRUCTION REVIEWED

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p 21

[Article by Yi Fei [0001 7378]: "China's Port Construction -- Review and Prospects"]

[Text] In recent years, China's ports are often jammed with vessels and shipments delayed. This shows that, on the one hand, China's contacts with other countries are expanding swiftly and, on the other hand, its basic port facilities still far from suit the needs of opening up to the outside world and invigorating the domestic economy. During the fourth session of the sixth NPC conference held recently, Premier Zhao Ziyang reemphasized the importance of communications and transportation, stressing that communications and transportation will still be the focal points of economic development in the "Seventh 5-Year Plan." It is expected that during the "Seventh 5-Year Plan" period, China's port construction will advance by leaps and bounds and the strain on ports will be greatly relieved within 5 years.

According to an analysis made by people of the departments concerned, the changes which have taken place in China's ports over the last 5 years are mainly characterized by the following three aspects:

First, unprecedented growth developed in port construction and production. During the "Sixth 5-Year Plan" period, China built a total of 54 10,000-ton deep-water berths and 25 5,000-ton middle-class berths, adding a loading and unloading capacity of over 100 million tons. On average, 11 deep-water berths were built per year, adding a loading and unloading capacity of 20 million tons. As a result, the total number of deep-water berths in the main coastal ports amounts to 199 and the total number of middle-class berths has reached 156, with the total loading and unloading capacity coming to over 317 million tons. The construction achievements made in these 5 years are nearly as much as the total achievements made in the 10 years from 1970 to 1979. The freight loading and unloading capacity in the main coastal ports overfulfilled the target stipulated in the "Sixth 5-Year Plan" 1 year ahead of time. Freight handled in 1985 amounted to over

350 million tons, an increase of 62 percent over 1980 and showed an annual average growth rate of 10.1 percent. In 1984 and 1985, the transaction capacity of Shanghai port, the largest commercial port in China, topped 100 million tons for the 2ⁿ year in succession, thus leaping into the ranks of the world's 100-million-ton ports.

Second, a number of policies and measures were worked out to expedite the development of ports. The principle that both the central and local authorities should promote port construction and that equal importance should be equally attached to large, medium and small ports and the building of new ports and the transforming of old ports was proposed. To expand the source of funds for port construction, the "interim provisions for according preferential treatment to Chinese-foreign joint ventures engaging in port and wharf construction," charging additional port dues to freight in the main coastal ports, and other methods were publicized.

Third, a new tendency by inland provinces and regions to pool funds to build ports has arisen. Over the last 5 years, three wharves have been built by freight owners, jointly built by localities or by foreign capital. In 1985 alone, as many as 32 wharves and berths were built by the material departments of Hubei Province, totaling a loading and unloading capacity of over 2 million tons. In order to jointly exploit and use Lianyung Port, the seven provinces and cities along the Long-Hai railroad set up a special coordination group and signed an agreement to build seven 10,000-ton deep-water berths through consultation, in an effort to open up seaways for these inland provinces and cities.

Prospects for the Coming 5 Years

According to plans by the communications and transportation departments, during the "Seventh 5-Year Plan" period beginning from this year, the coastal ports should complete and commission 100 to 120 deepwater berths and build 80 medium and small berths. The number of deepwater berths will more than double the berths completed and commissioned over the last 5 years. By 1990, the total transaction capacity in coastal ports will amount to 550 million tons, an increase of 67 percent over 1985. In the specific plans for the shipment of bulk cargoes, the following aspects have been listed as focal points:

-- Transportation of energy resources. To coordinate with the efforts to ship the Shanxi Province's coal eastwards, four coaling ports linking up with the northern, central and southern railroads will be built in the coastal areas. Besides, 13 coaling ports will be built in each relevant coastal coal-receiving province or region. By 1990, the coastal ports' coal-loading capacity should reach over 100 million tons; their coal-unloading capacity should reach over 80 million tons; and the coal-exporting capacity should reach 20 million tons. Therefore, in addition to the coastal transportation fleets, a complete marine coal transportation

system can be formed. As for transportation of crude oil, two new 200,000-ton crude oil berths will be built in Dalian and Qingdao, adding a loading capacity of 29 million tons. By 1990, China will have 11 crude oil loading berths with an annual loading capacity of 90 million tons, which can basically meet the crude oil shipping needs of all major oil fields in China.

-- Containerized transportation. By the end of 1990, the total transaction capacity of China's container berths will reach 1.4 million containers, or 10 million tons. Special berths for shipping timber will amount to 23, with a loading and unloading capacity of over 10 million tons.

-- Grain transportation. Construction of berths for shipping grain in ports like Qinhuangdao, Lianyungang, Yinkou, Dandong, and so on, will be started or accelerated. Furthermore, priority will be given to the transformation of the Ganjingzi container wharf in Dalian, in an effort to meet the needs of importing and exporting grain.

-- Transshipment. In the coming 5 years, two stages to increase the number of anchorage, pontoon, marine transfer platform, barge, tug, and other facilities will be increased in two stages. This will raise the loading and unloading capacity by 38 million tons. In order to divert freight volume of major ports and promote economic development in coastal areas and transportation between the mainland and islands, about 80 medium and small berths, which can be used in both passenger and freight transportation, will be built in over 20 coastal ports, adding a transaction capacity of about 30 million tons.

If the abovementioned plans can be completed as scheduled, three fundamental changes will take place in China's coastal ports: First, the phenomenon of congestion will be greatly relieved; and by 1990, the number of China's coastal berths will reach about 1,000. Of these, 300 to 350 will be deep-water berths, thus attaining a normal ratio of 1:1 between the number of berths and the number of vessels in port. Second, the water transportation of many materials can be basically handled in ports. For example, the water transportation of bulk materials like coal, crude oil, ores, grain, timber, and so on, can be generally linked up with the transportation capability of railroads and pipes, thus coordinating the loading and unloading capabilities of both the marine coal and crude oil transportation systems. Third, the degree of modernization in ports will be improved, the structure and layout of ports and the conditions of highway transportation will be greatly improved.

The Primary Works for This Year

Departments responsible for the work in China have required the coastal ports to raise this year's total transaction capacity to more than 340 million tons and make a success of those port construction items which have already been included in state plans. Beginning this year, the investment in underwater projects at ports and berths which have already

been incorporated in state plans will be gradually undertaken by the state, while the construction of shore facilities will be completed by every port office and operational unit by soliciting loans or raising funds themselves. This year, the transshipment business will also be expedited. Meanwhile, efforts should be made to firmly grasp the technical transformation in ports. The stress of the technical transformation should be put on energy resources, foreign trade and passenger transportation stations and places, as well as on reconstructing the coastal wharves and berths with backward technology and equipment, expanding stockyards and storehouses, and improving the transportation conditions.

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FOREIGN TRADE AND INVESTMENT

FOREIGN ECONOMIC LEGISLATION REVIEWED

Beijing ZHONGGUO SHEHUI KEXUE (SOCIAL SCIENCES IN CHINA) in Chinese No 5,
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[Article by Zhang Xiangyu [1728 5046 1342], responsible editor Lan Yongwei [5663 3057 5588]: "A Preliminary Study of China's Framework of Foreign Investment Laws"]

[Text] The present article affirms the fact that China has built up a framework of foreign investment laws. The article believes them to be composed of two parts: domestic laws and treaty law, both types being under the supreme direction of the constitution. The present article discusses the legislative motives and aims of China's framework of foreign investment laws, analyzes the policy expressed in the framework and presents its own ideas on the administrative levels of China's framework of foreign investment laws.

The author, Zhang Xiangyu, was born in 1957, taught law at Wuhan University's law faculty and obtained a master's degree in law at the Wuhan University. In 1984 he obtained a master's degree from the college of law of the University of Michigan in the United States and is now working toward his doctor's degree at the College of Law of the University of Michigan.

The degree to which a country has perfected its legal system is one of the important indices to measure the quality of its investment environment. Following the 3d Plenum of the CPC Central Committee, the NPC launched systematic legislation of foreign investment laws. The various departments of the central government and of local governments too drew up many laws and regulations relative to foreign investments. In the 5 years from 1979 to 1984, China enacted almost 60 laws and regulations concerning foreign economic relations and foreign investments. (Footnote 1) At the same time, China signed several agreements for the protection of investments and other bilateral agreement related to investments with the numerous countries that were the main investors in China. A fairly complete Chinese system of foreign investment laws has thus been shaped. This system is composed of two parts, the domestic laws and the legal provisions of the treaties, and both components are topped by the principles anchored in China's Constitution. This situation has made it an important task for scholars of jurisprudence to probe into the content, structure and characteristics of this system.

1. Principles of the Constitution

Many Westerners who study the Chinese foreign investment laws seem to believe that there is a conflict between the Chinese investment legislation and the Chinese Constitution. (2) As they see it, there is a deep contradiction between the principle of China's foreign investment laws in acknowledging and protecting foreign investments and the principles of public ownership and planned economy set forth in the constitution. However, these persons have no true understanding of the Chinese Constitution.

The public ownership system of socialism is China's fundamental economic system as set forth in the Chinese Constitution, but it is not the only form of an ownership system in China. In view of the comparative backwardness of China's economy and its desire to quickly bring about a change in this situation and transform China into a modern socialist state, the Chinese Constitution has adopted the following principle in its socioeconomic system: Given the premise of upholding the leading position of the state economy, China must develop diverse economic forms, so as to promote the prosperity of the entire national economy.

Planned economy is the fundamental characteristic of the socialist public ownership economy, as it is also one of the fundamental principles fixed in the Chinese Constitution. However, at the same time as China's Constitution affirms that "the state will implement planned economy on the foundation of the socialist system of public ownership," it also affirms the role of market regulation. (Article 15) There is absolutely no contradiction between the implementation of planned economy and the use of the law of value and the development of a commodity economy. In summary one may say that China practices a planned commodity economy. China's Constitution also prescribes: "State enterprises shall have decision-making power in operation and management within the limits prescribed by law, on the condition that they submit to the unified leadership of the state and fulfill all their obligations under the state plan," (Article 16) and that "collective economic organizations shall have decision-making power in conducting independent economic activities, on condition that they accept the guidance of the state plan and abide by the relevant laws." (Article 17) The economic principles of China's Constitution are not at all mechanical and rigid, but have a large measure of elasticity and diversity. (4)

The sense of principle and the flexibility of the Chinese Constitution provide strong legal support for wide-ranging attraction of foreign capital and for the establishment of new economic forms, such as the joint venture enterprises. There are, furthermore, specific articles in China's Constitution that express the principle of attracting foreign capital and protecting foreign investments. Article 18 of the Chinese Constitution prescribes: The PRC allows foreign enterprises, other economic organization and individuals to invest in China and to engage in economic cooperation of various forms with Chinese enterprises or other economic organizations in accordance with the provisions of Chinese law. On Chinese territory, foreign enterprises and other economic organizations as well as Chinese-foreign joint venture enterprises must abide by the laws of the PRC. Their lawful rights and interests receive the protection of the laws of the PRC.

The Chinese Constitution is the legal basis for all of the country's territorial laws and various individual laws and regulations. The constitutional principle of affirming and protecting foreign investments provides a feasible legal foundation for the establishment of China's entire system of foreign investment laws. During the entire process of China's foreign investment legislation, whether in the formulation of individual domestic laws or the signing of bilateral international treaties on investments, the principles of the constitution regarding adherence to the socialist economic system and the treatment of foreign investments have all along been the directives of highest authority.

II. Principles, Policies and Objectives of China's Foreign Investment Legislation

The principles set forth in the constitution are highest authority for China's foreign investment legislation, but any individual independent legal system will also want to give expression to its own principles, policies and objectives. The primary principle of China's foreign investment legislation is the principle of sovereignty.

Sovereignty is the key factor that allows us to measure the success or failure of a country's foreign investment legislation. In old China, the policy of the reactionary governments was one of selling out the country's sovereign rights. As a consequence, foreign capital monopolized China's national economy, subdued its national industry and commerce, impeded their development, and had China, finally, decline into the state of a semifeudal, semicolonial country. In their states of economic backwardness, certain Third World countries have had the same experience of merely seeking eagerly to import foreign capital while disregarding the need to emphasize the principle of sovereignty in their relevant legislation, with the result that foreign capital monopolized the lifelines of the national economy and even threatened the political independence of the countries in question. China is an independent socialist country. While China intends to import foreign capital and advanced technologies on a broad scale, it must at the same time draw lessons from Chinese and foreign historical experiences and firmly uphold the principle of sovereignty.

The principle of sovereignty is nothing abstract, but is a legislative principle with abundant meaning. Its basic demand is that no foreign investment must harm the totality of our country's sovereignty. (5) By implementing the principle of sovereignty in our foreign investment legislation, we can ensure the state's control, supervision and proper management of foreign capital. For instance, by its legislation, the state can restrict foreign capital from infiltrating vital sectors of the country's economy, such as the war industry. Through the establishment of a legal procedure of examination and approval of foreign investments, the state can maintain effective controlling powers over foreign capital. The principle of sovereignty in foreign investment legislation is also evident in the legal demand that foreign investments must not destroy China's ecological equilibrium or pollute the environment, and also not violate China's socialist ethics. (6)

Another important principle incorporated in China's investment legislation is the principle of equality and mutual benefit. The principle of equality and mutual benefit is an important principle that China has consistently advocated and faithfully pursued in its foreign economic relations. This principle is also recognized by most countries and in certain important documents of international law. (7) It is one of the major principles that guide modern international economic intercourse. In past international economic relations, the capital-exporting countries hoped to be able to use their capital exports to exploit and plunder the capital-importing countries. Frequently, such capital-exports resulted in the capital-exporting countries getting richer and richer and the capital-importing countries getting poorer and poorer. During the period from the 1960s to the early 1970s, many Third World countries launched movements for the establishment of a new international economic order, with the aim of changing the economic imbalance in the world brought about by the exports of capital, and to establish the principle of equality and mutual benefit as the major legal basis for the world's new economic order.

The core of the principle of equality and mutual benefit is its "mutuality." In their economic-legal meaning, equality and mutual benefits are two inseparably linked concepts. In the course of international economic activities, there can be true equality only if there is also mutual benefit, and there can be real mutual benefit only if there is true equality. China is a big country abounding in natural wealth, it has abundant natural resources, a huge market potential and relatively cheap manpower, but China's economy is comparatively backward and in need of large imports of foreign capital and advanced technologies. This is the actual foundation on which China practices the principle of mutual benefit in its investment policy. China's foreign investment laws, therefore, persistently emphasize not only in China's treaty law sector, but also in the sector of its domestic laws, the importance of conducting investment activities on the basis of equality. For the most favorable implementation of the principle of equality and mutual benefit, China's foreign investment laws obviously tend to favor the forms of joint ventures for the importation of capital, since by using this form, it is possible to achieve a closer integration of the interests of the two parties, the Chinese and the foreign investors, on the basis of equality.

Law is the manifestation of policy. China's current foreign investment legislation abundantly manifests an important policy; this is the policy of the state of currently encouraging foreign investments. Because China had in the past overemphasized the principle of reconstruction through its own strength, no experiences were gathered in the field of importing capital, and many foreign investors, for this reason, maintained scepticism as to investments in China. On the other hand, China's four modernizations urgently need foreign capital and advanced technologies. This fact determined for China that it is necessary at the present stage to adopt a policy of encouraging foreign investments. China's foreign investment laws have played an important role in this respect. The policy of encouraging foreign investments in China's foreign investment laws is not limited to one or two slogans, but is incorporated in a large number of substantive legal provisions. First, the treaties concluded by China with various countries

regarding investments generally include such favorable clauses as the most-favored-nation clause, clauses against uncompensated expropriations or nationalization and clauses for the transfer of profits . (8) Second, in domestic legislation, China has instituted the system of special economic zones [SEZs]. A variety of favorable investment conditions apply to these SEZs, creating a unique investment environment for foreign investors. Third, China's foreign investment laws, furthermore, encourage foreign investments by policies of low taxation and of exemptions from income tax for the initial periods of investments. For a more effective attraction of advanced technology imports from abroad and to encourage foreign investments in China's remote border regions or in China's relatively weak economic sectors, China's foreign investment laws provide a great variety of favorable provisions at different localities.

The objective of China's foreign investment legislation is simply to provide protection by legal means for foreign investors, for foreign investments and for foreign investment profits, on the condition of upholding China's national sovereignty and national interests. The most basic objective of China's foreign investment legislation is to establish a perfect legal system to facilitate importation on a broad scale of foreign capital, foreign advanced technologies and advanced managerial experiences, and thereby promote China's economic development, raise the level of China's science, technology and business management and speed up realization of China's four modernizations. A complete system of foreign investment laws will also promote China's economic cooperation and technology exchanges with other countries, thereby giving added impetus to the economic, scientific and technological development throughout the entire world.

III. Domestic Legislation

(1) Development of Domestic Legislation

The Law of the PRC on Joint Ventures Using Chinese and Foreign Investment, adopted by the Second Session of the Fifth NPC on 1 July 1979 (hereafter called the "Chinese-Foreign Joint Venture Law"), signifies the beginning of China's foreign investment legislation. The promulgation of this law evoked strong responses in China as well as abroad. While praising China's foreign investment legislation, many foreign scholars at the same time expressed disappointment with the law itself. In their opinion, it was an imperfect and imprecise law. (9) However, these persons did not completely understand China's legislative intention and guiding ideology.

The Chinese-Foreign Joint Venture Law provided fundamental guiding principles for the establishment of China's system of foreign investment laws. Even though it consisted of only 15 simple articles, each article had important legal significance. Since the 3d Plenum of the 11th CPC Central Committee had decided on an open-door economic policy, and since China's four modernizations were in urgent need of large amounts of foreign capital and advanced technologies, and since, furthermore, foreign investment legislation was an as yet untried matter with very little experiences available at that time, these factors determined that our first foreign investment legislation could not go into detail, but could merely provide fundamental principles. Even though

this law does not go into great detail, it is comprehensive. The said law contains provisions of a principle nature as to the principles and objectives of China's importation of foreign capital, the legal status, management and capital investment ratios of joint ventures, the scope of their operations, taxation, profits and foreign exchange as well as on the contracts themselves and the settlement of disputes. It is in this form that it became the basis for later Chinese foreign investment legislation. When it was enacted, the significance of the Chinese-Foreign Joint Venture Law far exceeded the mere articles of its text, since it indicated China's resolve to use the legal system in support of its importation of foreign capital and to protect foreign capital investments. It signified, therefore, that China will enact in future many more foreign investment laws and even build up a perfect system of foreign investment laws. (10)

One year later, in July 1980, based on the principles of the Chinese-Foreign Joint Venture Law and a year's experiences in the work of importing foreign capital, the State Council promulgated the PRC Regulations on the Registration of Chinese-Foreign Joint Ventures and the PRC Regulations on Labor Management in Chinese-Foreign Joint Ventures. The former is a detailed elaboration of Article 3 of the Chinese-Foreign Joint Venture Law and fixes in law the procedure for the registration of Chinese-foreign joint ventures. The latter regulation was drawn up based on the principles of Article 6, Paragraph 2 and Article 4 of the Chinese-Foreign Joint Venture Law and solves all legal questions in connection with labor contracts by the Chinese-foreign joint ventures. In September of the same year, the Third Session of the Fifth NPC promulgated two tax laws: The Income Tax Law of the PRC Concerning Chinese-Foreign Joint Ventures and the Individual Income Tax Law of the PRC. At its Fourth Session in December of 1981, the Fifth NPC adopted yet another important tax law concerning foreign capital: the Income Tax Law of the PRC Concerning Foreign Enterprises. These three income tax laws express the various policies adopted by China regarding taxation of foreign investments. Based on the principles of these three laws, the Chinese Ministry of Finance drew up as a further step three corresponding law enforcement regulations, which were approved and promulgated by the State Council. In this manner, China achieved a comparatively complete system of tax laws. Out of consideration for specific investment objectives, the State Council at the same time drew up the Regulations of the PRC on Cooperation With Foreign Parties in the Exploitation of Offshore Oil Resources, and out of consideration for peculiarities of the investment territory, the Standing Committee of the NPC approved the Regulations of the PRC on Special Economic Zones in Guangdong Province. China also issued regulations on the control of resident representatives of foreign enterprises and drew up legal provisions on the control of foreign exchange remittances by foreign organizations and individuals. Furthermore, following the increasing opening up of the country and importation of foreign capital, China in recent years actively improved its relevant maritime customs laws and other legal systems having a bearing on foreign investments.

On 20 September 1983, the State Council promulgated the Enforcement Regulations to the Law of the PRC on Joint Ventures Using Chinese and Foreign Capital (hereafter the "Chinese-Foreign Joint Venture Enforcement Regulations"). This signified the basic completion of China's framework of

foreign investment laws. This law has 16 chapters and 118 articles, and it is based on more than 4 years of experiences in the work of importing foreign capital, it greatly enriched and elaborated in detail the principles expressed in the Chinese-Foreign Joint Venture Law of 1979. China's foreign investment law is no longer a set of abstract legal principles, but a comprehensive system of specific legal norms of more than 1,000 articles.

(2) The Structure and Special Characteristics of Domestic Legislation

China has been comparatively late in starting to import foreign capital. When China began to legislate on foreign investments, many countries of the world had already established perfect legal systems on foreign investments. China's legislation on foreign investments not only widely referred to the achievements of other countries in this line of legislation, but also summed up the practical experiences gained in the concrete conditions of China. China's system of foreign investment laws, therefore, displays a unique national structure and distinctive national traits.

In its overall aspect, China's domestic legislation on foreign investments shows three structural levels. The three different levels are linked with one another, exercise an impact on one another and thus form a comprehensive domestic legal system. The three structural levels of domestic legislation on foreign investments are: 1. Local laws and regulations; 2. The legal norms and enforcement regulations drawn up by the departments of the central authority and by the State Council; 3. The various individual laws passed by the NPC. In the following we shall discuss the substance and relations of these three structural levels:

The local laws and regulations mentioned as the first administrative level refer to laws and regulations issued by China's local governments. Article 100 of the Chinese Constitution prescribes: "The people's assemblies of provinces and directly administered municipalities, as well as their standing committees, may enact laws and regulations of a local nature, provided they do not conflict with the constitution, laws and administrative regulations; such local enactments shall be reported to the Standing Committee of the NPC for the record." Since the initiation of the open-door policy, several local governments enacted certain laws and regulations of local nature or of special nature based on the actual conditions of the locality concerned, in order to further broaden the importation of foreign capital. The most conspicuous of these are the Regulations on Special Economic Zones in Guangdong Province, passed by the Guangdong Provincial People's Assembly and approved by the Standing Committee of the NPC on 26 August 1980. These regulations were drawn up in consideration of the coastal location of Guangdong Province and its special geographical environment, namely the proximity to Hong Kong and Macao. The law delineates a certain area as an SEZ and, furthermore, provides for this area more favorable treatment for investors than at other places, in order to attract larger amounts of foreign capital. After establishment of the SEZ, it became necessary to establish a series of laws and regulations pertaining to the said SEZ, such as the Provisional Regulations on Labor Management in the SEZ, provisional Regulations on Land Management in the SEZ, etc. The laws of this organizational level have the following obvious characteristics: one, they are of local nature, and two, they are of a

particular nature. Laws of this type generally apply only within a certain territory and will provide improved protection and more favorable treatment for foreign investments. In May of 1984, the CPC Central Committee and the State Council decided to open up a further 14 coastal ports, based on the successful experiences of the operation of SEZs in China, in order to attract more foreign capital and import more advanced technologies. There will, therefore, in future be a gradual increase in foreign investment laws of this structural level.

On the second administrative level, there are the legal norms and enforcement regulations drawn up by departments of the central authority and the State Council. The number of these regulations is very large, and they are, furthermore, regulations with fairly specific formulations, and therefore, there are many opportunities to apply them. For instance, the Enforcement Regulations to the Chinese-Foreign Joint Enterprise Law promulgated by the State Council, the three enforcement regulations to the foreign investment income tax laws drawn up by the Ministry of Finance and approved by the State Council, the Provisional Regulations Governing State Control of Foreign Exchange passed by the State Council on December of 1980, as well as the corresponding two enforcement regulations promulgated by the State General Administration of Exchange Control, the Regulations of the PRC on Foreign Cooperation in the Exploitation of Offshore Oil Resources adopted by the State Council in January 1982, all these belong to this administrative level. The laws of this administrative level constitute the principal part of domestic legislation on foreign investments. The special characteristics of this legislation are that it touches on a large spectrum of questions regarding foreign investments and that it, furthermore, provides clear, specific and substantive legal provisions.

The third administrative level tops the second level and is constituted by various individual laws and regulations on foreign investment promulgated by the NPC, for instance, the three income tax laws regarding foreign capital and the Foreign Economic Contract Law, promulgated by the NPC, as well as the Foreign Enterprise Law, Company Law and Law on Cooperatively Managed Enterprises, on which drafting and deliberating is now being speeded up. The most significant law of this structural level is the Law on Chinese-Foreign Joint Ventures, promulgated in July of 1979. This law provided the important guiding principle for the legislative work on the other two structural levels. The laws of the third administrative level are characterized by the general scope of their application and by their guidance nature; they are the base for the legislation of the other two levels. The third level is, therefore, the foundation for the entire Chinese domestic legislation on foreign investments.

The three levels in China's domestic system of foreign investment laws can be differentiated according to the following three criteria: first, the difference of legislative organizations, differentiating here by local governments, central government and the NPC; second, differentiating according to the different scope of application of the laws, that is, whether the laws are of local nature or of nationwide nature; third, the difference in the significance of the laws, differentiating here those of specific applications and those of guidance character. The occurrence of the three levels is linked with China's political structure and the actual demands for

the absorption of foreign capital. Each legal level plays its particular important role, but all together form a harmonious union and for this reason constitute a comparatively perfect system of Chinese domestic legislation on foreign investments.

IV. Treaty Law

We can roughly divide China's treaty law on foreign investments into three groups: one, China's agreements with foreign countries for mutual promotion and protection of investments; two, China's agreements with foreign countries regarding taxation; three, other agreements signed between China and other countries with some bearing on foreign investments. These three types of treaty law are also mutually linked; they constitute another important component of China's system of foreign investment law.

(1) Agreements Mutually Promoting and Protecting Investments

In international practice, the conclusion of treaties for the mutual promotion and protection of investments has had only a short history of more or less 25 years, but is now a general practice throughout the world. (11) Especially since 1967 when the UN Economic Cooperation and Development Organization drew up standard agreements for the mutual promotion and protection of investments, more countries were willing to provide investment protection through treaties. Since China instituted the open-door policy and speeded up legislation on foreign investments, China, too, actively negotiated and signed treaties with those countries which were the main investors for a series of investment protection treaties. Up to November 1984, China signed this type of agreement with Sweden, Romania, the FRG, Belgium, France, Canada, the Soviet Union, and Norway. (12)

Actually, China's first agreement involving protection of investments was signed with the government of the United States on 7 October 1980: the Agreement on Investment Insurance and Investment Guarantees as Encouragement to Investments, effective with the exchange of notes on 30 October. By this agreement, China undertakes to protect all American investments in China that have had the approval of the Chinese Government and, furthermore, regulates the remittance of profits from American investments, the settlement of disputes, and other such questions. However, this investment agreement has a special feature, not found in the general investment protection agreements, in that its main purpose is to allow the American Overseas Private Investment Corporation (OPIC) to provide investment insurance and investment guarantees for projects or activities carried out or participated in by America with the approval of the Chinese government, as an encouragement for more private American investments in China. Since this was the first foreign investment agreement concluded by China, it provided China with experiences for future foreign investment treaties and laid the foundation for the Chinese-American investment protection agreement which is now under negotiation.

The agreements signed by China with other countries on the promotion and mutual protection of investments are not much different from this type of agreement now internationally in common practice. They generally contain the following provisions: 1. Definitions; 2. Treatment of investments; 3.

Transfer of gains from investments; 4. Methods of settling disputes. In the following, I shall take the Chinese investment protection agreement with the FRG as example, (13) to demonstrate in detail the various aspects of such an agreement. In defining the term "investment," the agreement refers to all lawful property, which includes property rights to movable and immovable property and other rights over things, and also includes company shares, monetary claims convertible into economic values or rights to demand actions of economic value, copyrights, industrial property, trademarks, and every kind of patent right. In defining the term "investor," the agreement generally refers to juristic and natural persons of the nationality of the contracting countries. The agreement defines the term "gains" as the profits, dividends, interests or other lawful income accruing during a certain period of time. Articles 2, 3, 4 and 8 deal with the treatment of investments, the basic principle being that each contracting country must under all circumstances afford equitable and rational treatment to the investments within its territory by the other signatory country. (Article 2) The agreement also contains the most-favored-nation clause. Article 4 contains provisions on compensation in case of nationalization and regarding foreign investments incurring losses due to one country being involved in war or declaring a state of emergency. The third aspect, the transfer of gains and remittances, is dealt with in Articles 5, 6 and 7, where the foreign investor is given a comparatively large measure of freedom. Finally, there are provisions for the settlement of disputes. The said agreement provides that in case of a dispute, the contracting countries should as far as possible arrive at a negotiated settlement. If settlement is not achieved within 6 months, each of the contracting countries can demand arbitration. The agreement contains clear and definite provisions on the constitution of the arbitration tribunal, on the effect of the arbitration award and on the responsibility for the arbitration expenses.

In studying these investment protection treaties signed between China and other countries, there is one question that deserves our special attention, namely the "reciprocity" of these treaties. At the present stage, China is still a capital-importing country, and China's investments abroad are only of a very limited amount compared with foreign investments in China. However, in all investment protection treaties the protection provided to foreign investments must be reciprocal, meaning that each contracting party must provide reciprocal protection to investments in its territory by the other party. It is for this reason that treaties of this kind signed by China are generally called "agreements for the promotion and mutual protection of investments." They apply not only to investments in China by the other contracting country, but also to Chinese investments in the territories of the other contracting countries. However, while emphasizing the principle of reciprocity, more importance attaches to the protective role of these investment protection agreements for all foreign investments on Chinese territory, since China is presently in the position of a capital-importing country.

(2) Agreements on Taxation and Other Agreements Involving Foreign Investments

The question of taxation is a very important question in the Western economic system. It has a direct bearing on the profits gained by anyone engaged in

any kind of economic activity. Legal provisions on taxation are, therefore, a matter of greatest concern to those either operating or employed in business operations. There are now a large number of investment projects, Chinese-foreign joint ventures and foreign employees in China, and since 1981 China has gradually built up a tax law system concerning foreign investments. However, since the foreign enterprises, branches of foreign enterprises and foreign individuals working in China are also subject to the laws of their own countries, conflicts may arise between the Chinese and the foreign tax laws. These may result in two irrational situations, one being double taxation, i.e. being taxed by Chinese as well as by the relevant foreign tax law. The other is tax evasion, i.e. a certain investment or person should be taxed, but evades taxation because of the foreign element in the legal facts. This kind of conflict of laws can generally be solved in two ways: one is to select one law according to the rules of conflict of law in one country, i.e. to regulate these cases according to the methods of private international law; the other method is to conclude treaties and regulate these cases by one uniform standard. The second method has many advantages over the first method. It is easier to apply, easier for the parties to understand and manage, and, what is even more important, it can bring about a comparatively more thorough solution to questions of conflict of law and, furthermore, achieve uniform results. It has therefore become general international practice to solve conflicts of tax laws related to foreign investments by bilateral treaties.

China has concluded agreements for the prevention of double taxation, tax fraud and tax evasion with Japan, the United States, Great Britain, France and other countries. Since tax laws are complex, different rules apply to different situations, and since many technical questions become involved, the texts of these treaties are in general also very complex.

Agreements for the prevention of double taxation, tax fraud and tax evasion are important supplements to China's domestic tax legislation, as they also form an important component of China's treaty law concerning foreign investments. Not only do they ensure application of Chinese domestic tax legislation to foreign investments and foreign personnel, but also round out China's treaty law. Because the tax problem is an important problem of direct concern to foreign investors, and since double taxation is what foreign investors are most concerned about, the way China resolved the problem in a rational manner by concluding treaties that protect the lawful interests of the foreign investors will also reassure their confidence in investments and encourage many more foreign investors to invest in China.

The Chinese government has concluded many other agreements that have a bearing on foreign investments. These agreements do not deal entirely with foreign investments, but their subject matter has a direct or indirect bearing on foreign investments, or certain of their articles directly or indirectly have a bearing on foreign investments. There is a large number of such agreements, including many trade agreements signed by the Chinese Government with foreign countries, as well as agreements for economic cooperation, agreements for the transfer of technologies, etc. For instance, the China-United States Industrial and Technological Cooperation Agreement, signed in Washington on 12 January 1984, is of this nature. Article 3 of this agreement specifically provides for broad industrial and technological cooperation between the

contracting countries, including cooperation in production and manufacture. Even though this agreement has no direct bearing on foreign investments, the role of these agreements in China's foreign investment law must not be ignored. Especially in relation to those countries with whom China has up to now not yet officially concluded foreign investment protection agreements, the agreements that have been concluded become legal documents for the adjustment of mutual relations between China and those countries.

V. Short Summary

Foreigners have called China a country without law; we had the same idea during the "decade of turmoil." The impression that no legal system exists or that the legal system is imperfect is one of the most serious mental encumbrances of foreign investors regarding investments in China. However, since 1979, in the short period of only 5 years, China has established a comparatively perfect system of foreign investment laws.

The way a socialist country treats its foreign investors is not merely a theoretical question, but a highly important question of legislative reality. China has had no foreign experiences it could immediately copy, (14) but had to probe and explore its own way in actual practice. The Chinese Constitution on the one hand emphasizes the principle of socialist public ownership economy and on the other hand affirms the special characteristic of a diversity of socialist economic forms, and it has also incorporated the principle of protecting foreign investments in its text. The Chinese system of foreign investment laws is, therefore, a component of China's socialist legal system; it is well coordinated with all other Chinese domestic laws into one unified entity.

China's foreign investment legislation has its own distinctive legislative principles and objectives. It emphasizes upholding sovereignty and national interests in the process of importing foreign capital, while at the same time actively encouraging foreign investments by granting various favorable conditions. The principle of equality and mutual benefit is one of the five principles of peaceful coexistence advocated by China, as it is also one of the important principles of modern international economic law. It is a principle that China has all along pursued in its foreign economic relations and trade activities. It has found faithful implementation in China's foreign investment legislation. Because China's foreign investment legislation is manifesting China's policy of promoting and encouraging foreign investments during China's present stage, this legislation has played an important role in the expanded importation of foreign capital, and in the acceleration of China's economic construction and scientific and technological development. It, furthermore, promoted and protected China's economic cooperation and technological exchanges with other nations, and thus enriched the world economy.

China's system of foreign investment laws also shows distinctive levels and a rational structure. The domestic portion incorporates legislation in the nature of principles as well as legislation on particular details. It contains norms of local applicability as well as norms of nationwide applicability. Its treaty law part lays stress on upholding our national

interests, but at the same time gives consideration to the protection of the interests of the foreign investors, and, furthermore, resolves certain problems of specific legal applicability as regards investments. The two large groups are then also harmoniously combined into one by China's Constitution, thereby achieving the nature of a unison and complete system.

Even though China's system of foreign investment laws is a fairly complete system, it still is a system in the course of being built up. A truly perfect foreign investment law of a country comprises not only parts that apply to imported foreign investments operating on its own territory, but also sections that would apply to the investments by its own state, juristic persons and citizens outside of its own territory. We feel justified in affirming that in the wake of China's economic development, China will in future establish legal provisions for China's investments abroad and render China's system of foreign investment laws even more perfect.

FOOTNOTES

1. Speech by Gu Ming [7357 2494], president of the China Economic Law Research Society and deputy secretary general of the State Council at the International Investment Law Conference at Dalian (RENMIN RIBAO, 19 November 1984).

2. Timothy Haosen Wan, "A Comparative Study of Foreign Investment Laws in Taiwan and China," in CALIFORNIA WESTERN INTERNATIONAL LAW JOURNAL, Vol 11 (Spring 1981) p 236.

3. Peng Zhen [1756 4176], "Report on the Revision of the Constitution," given at the Fifth Session of the Fifth NPC, on 26 November 1982.

4. Idem.

5 and 6. Article 5 of the Enforcement Regulations to the Chinese-Foreign Joint Venture Law.

7. For instance, emphasized in the "Statutes of Economic Rights and Obligations of All Countries," passed by the General Assembly of the United Nations, 1974.

8. See Chapter 4, subsection 1, of this article.

9. This view is extremely common among Western scholars. See: Alford & Birenbaum, "Joint Ventures in the China Trade; an Analysis of China's Emerging Legal Framework for the Regulation of Foreign Investment," in NORTHWESTERN JOURNAL OF INTERNATIONAL LAW AND BUSINESS, Spring 1981, p 92.

10. This is also predicted by some foreign scholars, see: Cohen and Nee, "Joint Ventures; Behind the Headlines," in THE ASIAN WALL STREET JOURNAL, 21 July 1979.

11. Refer: Georg Schwarzenberger, "Foreign Investment and International Law," 1960.

12. See footnote 1, but no mention in Gu Ming's speech of the three countries Canada, Norway and Italy. China's foreign investment protection agreement with Canada was signed on the occasion of Premier Zhao Ziyang's visit to Canada, January 1984. China's investment protection agreement with Norway was signed on 21 November 1984, on the occasion of the Norwegian Premier Willoch's visit to China. China's investment protection agreement with Italy was signed on 5 January 1985.

13. The Chinese-German "Agreement for the Promotion and Mutual Protection of Investments" was signed in Beijing on 7 October 1983. The agreement has 13 articles and an additional protocol.

14. The foreign investment laws of East European countries generally provide that the foreign investment in the joint enterprise is limited to 49 percent, so as to retain decision-making power and ensure completion of the state's economic plan. Yugoslavia has recently abolished this provision. See: "Yugoslavia Relaxes Restrictions on Foreign Investments," RENMIN RIBAO, 2 December 1984, p 6.

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FOREIGN TRADE AND INVESTMENTS

PARTS OF FOREIGN ECONOMIC CONTRACT LAW TEXT EXPLAINED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 85 pp 31-35

[Article by Feng Datong [7458 1129 0681]: "Foreign Economic Contract Law - Eighth Lecture on International Economic Relations and Trade Laws"]

[Text] The Foreign Economic Contract Law of the PRC [FECL] was adopted at the Tenth Session of the Standing Committee of the Sixth NPC and entered into force on 1 July 1985. The said law was to meet the needs of China's opening up to the outside world. It bases on the fundamental principles which China applies to its foreign economic and trade relations and was formulated on the foundation of the sum total of China's actual experiences in handling foreign economic contracts since the founding of the PRC, as well as with reference to international practices and international customs. It is an extremely important piece of Chinese legislation concerning economic contractual relations with foreign parties. The law has 17 chapters on the subjects: formation of contract, performance of contract, liability for breach of contract, assignment, modification, cancellation and termination of contract and the settlement of disputes. The law has 43 articles. I shall introduce in the following certain main parts of the law:

I. General Provisions

In its general provisions, the FECL mainly describes the legislative purpose of the law, its scope, fundamental principles and questions of its applicability, as will be stated in more detail in the following:

(1) The Legislative Purpose

Article 1 of the FECL makes purpose and main theme clear right at the start by stating that the purpose of the law is to protect the lawful rights and interests of parties to economic contracts and to promote the development of China's foreign economic relations. The term "parties to economic contracts" refers here not only to the Chinese parties, but comprises foreign parties as well; the law treats Chinese and foreign parties absolutely equal without discrimination, and protects their lawful rights and interests in the same way. Only in this manner will it be possible to achieve its aim of promoting the development of China's foreign economic and trade relations.

(2) The Scope of the Law

According to Article 2 of the FECL, the law applies to all economic contracts concluded between Chinese enterprises and economic organizations on the one side and foreign enterprises, other economic organizations and individuals on the other side, with the exception of international transport contracts. This provision is evidence of the broad scope of the law's application. Within the scope of the law are, for instance, all contracts of joint ventures using Chinese and foreign capital, contracts of Chinese-foreign cooperative management enterprises, Chinese-foreign contracts for the joint exploration and development of natural resources, import-export trade contracts, contracts for the transfer of foreign technologies, compensation trade contracts, contracts for the processing or assembly of imported materials, international leasing contracts, etc. The provisions of the FECL will apply to a contract if the parties to the above-mentioned contracts stipulate in their contracts that Chinese law shall apply, or if Chinese law requires that certain categories of contracts must be governed by Chinese law, or if a law court or arbitration organization determines that Chinese law has to apply. The only exceptions are the international transport contracts, and the reason for that is possibly that these contracts concern the different ways of transportation, by sea, air or land, where special conditions prevail, which require the enactment of more specific regulations, such as a maritime trade law, air transportation law, railway transportation law, etc. Furthermore, international transport trade must be conducted according to pertinent international conventions; these types of contracts are, therefore, not placed within the scope of the FECL.

(3) Fundamental Principles

In its foreign trade relations, China has all along firmly upheld a policy of independence and self-determination and observed the principle of equality and mutual benefit, and also has give due attention to international practices and customs. These policies and principles are also the fundamental principles of the FECL. The said law, for instance, prescribes: "Contracts must observe the laws of the PRC and must not harm the social and public interests of the PRC." "Contracts must be concluded in conformity with the principles of equality and mutual benefit and of achieving unanimity through negotiations." The law also prescribes that in cases where no provisions exist in the laws of the PRC, international practice may apply. All these provisions are concrete manifestations of the above-mentioned principles. These principles are not only the substance of the general provisions, but permeate the entire law from beginning to end.

(4) Applicability of the Law

Since foreign economic contracts are contracts concluded between Chinese and foreign parties, at least one party is a foreign enterprise or foreign individual. Should a dispute occur, the question of the applicability of the law frequently arises, i.e. the question of which national law should be applied in the resolution of the dispute. Since there are differences in the different national laws, the resolution of a problem can possibly lead to different results, depending on which national law is applied to the case.

The parties, especially the foreign parties, will therefore attach great importance to the question of the applicability of law. On this point, the FECL contains the following provisions:

1. The parties to the contract may choose the law to be applied to the settlement of disputes arising from the contract. This is the fundamental principle. Most countries allow the parties to freely choose the law that should apply to their contracts. It may, furthermore, be explicitly stipulated in the contract, as for instance, that Chinese law, or Japanese law, or English law, etc., shall apply to the contract. This is called a choice of law clause. The main purpose of including this clause in the contract is to provide legal certainty and avoid the event that at a later date in case of dispute different results may be arrived at by the application of different national laws.

Although most countries now allow the parties the freedom to choose the law applicable to their contracts, most also impose some limitations on this choice. For instance, many countries demand that the law of choice must have a real connection to the contract, that the choice must be in good faith and a lawful one, must not violate the public order of the country where the law court is located, and must not evade laws of compulsory nature of the country genuinely related to the contract. Though there are no specific provisions on this point in Chinese law, Article 9 of the FECL clearly prescribes that contracts that violate the law or the public interests of society of the PRC are invalid. According to this provision, the law chosen by the parties must not violate Chinese laws or the public interests of Chinese society.

2. If the parties have not made any choice of a law to be applied to their contract, the law of the country which has the closest relation with the contract shall be applied. According to the procedure generally adopted internationally, if the parties have not explicitly stated in the contract which law is to apply, and a dispute arises, the law court or arbitration organization that is to deal with the case must decide what law to apply according to the conflict of law rules at their location or according to the conflict of law rules they consider must be applied. In conditions of this nature, it is generally suggested to apply the laws of the country that is related closest to the contract. The law of the closest relation can mean the law where the contract was signed, where the contract is to be fulfilled, where the property in dispute is located, where the place of business of the parties is located or where the arbitration organization or law court is located on which the parties have agreed. To make the specific choice among these is up to the law court or arbitration organization to which the dispute is brought; the decision should consider the nature of the contract, the text of the contract and the specific conditions of the dispute.

3. Contracts of joint ventures using Chinese and foreign capital, contracts of Chinese-foreign cooperative management enterprises, contracts for joint Chinese-foreign exploration or development of natural resources, if performance is to take place within the territory of the PRC, must be governed by Chinese law. This is a special rule, the idea being that the mentioned three types of contracts must apply Chinese law, without allowing the parties a choice of any other law. However, this rule must be applied only to the

three mentioned contracts themselves, and must not be extended to include economic contracts that the above-mentioned enterprises conclude with foreign enterprises. For instance, when the Chinese and foreign party conclude a joint venture contract, that contract itself must be governed by Chinese law, and foreign law cannot be applied to it. However, the joint venture enterprise set up according to this contract is a Chinese juristic person, and if it should conclude contracts with foreign companies or enterprises, such as for the purchase or sale of merchandise, the two parties to these contracts are free to choose the laws that should apply to these contracts.

4. If there are no relevant provisions in the laws of the PRC, international practice may apply. This provision, on the one hand, fills gaps where such exist in current Chinese economic legislation, and, on the other hand, establishes closer coordination between the Chinese practice of dealing with foreign economic relations and international practices and customs.

Article 6 of the FECL, furthermore, prescribes that when an international treaty which the PRC has concluded or is participating in relates to a contract and has provisions that differ from the law of the PRC, the provisions of the said treaty shall be applied, but with the exception of clauses to which the PRC has declared its reservation. The purpose of this provision is to acknowledge in legal form the priority of treaty provisions, thus establishing an even better interrelation between Chinese law and international treaties. This plays an extremely important role in the development of China's foreign trade relations.

II. Conclusion of Contract

Chapter 2 of the FECL contains clear and definite provisions on the conclusion of contracts; the main substance of the chapter is the following:

(1) Basic Conditions for the Formation of Contracts

Article 7 of the FECL prescribes: "A contract is formed when the clauses of contract are agreed in writing and signed by the parties." This provision sets two conditions for the formation of a contract:

1. Substantial Condition

The contract can only come about if both parties arrive at an agreement on all contract clauses. This is a basic condition that must be fulfilled by every contract. If the parties cannot arrive at an agreement on all clauses of the contract, no contract can be concluded. Concluding a contract is a legal act by the two parties, brought about by the two legal acts of an offer and an acceptance. If the offer by one party is unconditionally accepted by the other party, this can be counted as having reached agreement and the contract has been accomplished. Legal rules regarding the offer and the acceptance are in most countries contained in their civil law or contract law. China has no civil law yet, nor does the FECL contain any specific provisions in that respect. However, all Chinese foreign trade corporations have established a set of customary procedures in their foreign trade operations, to which reference may be made. The Chinese foreign trade corporations call the offer

a "fa pan" or "fa jia" [opening bid], and distinguish a substantial and a hollow opening bid, the main difference between the two being the difference in binding force for the bidder. The substantial opening bid is of binding force for the bidder; the bidder cannot withdraw or amend the bid at will during the period specified in the bid. If the other party unconditionally agrees to or accepts the substantial bid within the set time limit, the contract is concluded, without the need for any further confirmation by the bidder. The substantial bid must fulfill the following two conditions: (1) It must set forth, completely, clearly and definitely, the conditions of the transaction, and (2) it must set a time limit. The hollow bid is an offer made with certain reservations; it has no binding force for the bidder, who may at will withdraw or amend the bid. Even if the recipient of the hollow bid signifies acceptance, a contract will only come about after the final acknowledgment by the bidder. Hollow bids are usually accompanied by such phrases as "subject to my final acknowledgment," or "subject to merchandise still remaining unsold," etc., and will also not set a time limit.

Acceptance is the act by which the contract clauses of the offer are accepted. As soon as the offer is accepted, the contract is concluded. According to the customary practice of China's foreign trade corporations, the acceptance must fulfill the following two conditions: (1) The acceptance is only effective if the communication of it reaches the bidder within the specified time limit, and (2) the acceptance must unconditionally accept all clauses of the proposed contract. Any acceptance beyond the time limit or an acceptance with conditions attached will in principle not be considered as effective acceptances, but must be regarded as a new offer or counteroffer by the recipient of the original offer.

2. Formal Condition

According to the provisions of the FECL, a foreign economic contract must be made out in written form. The reason for this is that a foreign economic contract is a comparatively important contract of a rather complex nature, generally involving large amounts of money. It is therefore necessary to insist on the written form as a token of the seriousness of the transaction. Should a dispute arise, there will then be evidence in writing to facilitate proof. In the opposite case, if contracts are concluded verbally, and a dispute arises, frequently no reliance would be placed on the mere verbal statements, and there would be great difficulty proving the facts of the case.

(2) Regarding Agreements by Correspondence, Telegrams or Telex

Article 7 of the FECL also stipulates: "When an agreement is reached by correspondence, telegram or telex and one party requests a written confirmation, the contract is only concluded with the signing of the written confirmation." It would follow from this provision that if the parties do not request a written confirmation in the case of an agreement by correspondence, telegram or telex, the contract is concluded as soon as the parties have reached agreement, i.e. as soon as the letter, telegram or telex containing the acceptance has become effective. However, this rule applies only to agreements reached by correspondence, telegram or telex. Among trade circles this form of concluding contracts is called transaction by letter or telegram.

In international trade parties mostly negotiate and conclude agreements through this form of transactions by letter or telegram, and it is unlikely that most will request written contracts or confirmations. The said provision of the FECL is therefore in line with international practices. It is also not in conflict with the earlier mentioned demand that foreign economic contracts must be agreements in written form, because according to the 1980 international trade convention, correspondence, telegrams and telex are to be considered written forms.

(3) Contracts Requiring State Approval

The FECL, furthermore, specially prescribes that contracts which according to Chinese law or administrative regulations require state approval can only be considered concluded after such approval has been obtained. This mainly refers to contracts for joint ventures using Chinese and foreign capital, contracts for Chinese-foreign cooperative management enterprises, contracts for joint Chinese-foreign exploitation and development of natural resources, contracts for the transfer of technologies, compensation trade contracts and contracts for the processing or assembling of imported materials. These contracts can only become effective after approval by the organ charged by the state with the examination and approval of such cases. The time of conclusion of such a contract is, therefore, the date of approval by the organ in charge of its examination and approval, and not on the date when both parties sign the contract.

III. Performance of Contract and Liability for Breach of Contract

The FECL strongly emphasizes the seriousness of the contract; a contract has binding force as soon as it is entered into according to law. Both parties are obliged to fulfill the obligations stipulated in the contract, and neither party may arbitrarily alter or terminate the contract. If one party does not fulfill the contract or does not fulfill it according to the conditions stipulated in the contract, it would constitute a breach of contract, unless brought about by force majeure. The party that violates the contract is responsible for all consequences.

According to the provisions in Chapter 3 of the FECL, if a breach of contract occurs, the party not guilty of the breach of contract may adopt one of the following remedial measures:

(1) Compensation for Damages

Article 17 of the FECL prescribes that if one party has definite proof that the other party cannot fulfill his contractual obligations, the former party may temporarily suspend performance of his obligations, but must immediately inform the other party of the fact that he is doing so. When the other party provides a full guarantee of performance, the opposite party may no longer withhold performance. The party who suspends performance without definite proof that the other party is unable to fulfill its obligations shall be held responsible for a breach of contract. In this respect two questions have to have our attention: First, the "definite proof" that one party must have of the other party's inability to fulfill the contract. This alone will justify

the party to suspend its own performance. Performance must not be arbitrarily stopped because of a groundless suspicion that the other party will not fulfill its obligations. The party that in this way would arbitrarily stop performance would be held responsible for a breach of contract. Generally speaking, definite proof of inability to fulfill the contract could possibly be a war or a blockade involving the country of one party, or the insolvency of a party. Second, if the other party provides a full guarantee of performance, the opposite party must fulfill its obligations and may no longer withhold performance. The term "full guarantee" ordinarily means a bank guarantee of performance, but could also be rights to some asset of the party in question (a mortgage or a pawn) or any other form of security.

(4) Cancellation of Contract

Cancellation of a contract actually means nullifying a contract that has already been concluded. This is an important legal step. Every country imposes certain limitations on the cancellation of contracts; it is not that any violation of one party would entitle the other party to cancel the contract. The Chinese FECL also imposes comparatively strict limitations on the cancellation of contracts. Only one of the following conditions allows a party to cancel a contract: (1) If the contract violation by one party seriously affects the economic results that the other party hoped to achieve through the contract; (2) If one party does not fulfill the contract within the time limit set in the contract and still fails to perform within a reasonable period of time allowed for delayed performance; (3) In case force majeure makes performance of all contract obligations impossible; (4) If conditions have arisen which the parties had agreed in the contract as reasons for cancellation.

(5) Other Reasonable Remedial Measures

These are provisions of a very broad spectrum. What particular remedial measure could be covered is determined to a large measure by the nature of the contract and the conditions of the contract violation. For instance, if the goods delivered by the seller in the case of a sales contract are not in accordance with contract stipulations, the buyer can demand of the seller the removal of the defect, or the replacement of the defective goods, or a reduction in price, etc.

Moreover, according to the provisions of the FECL, the party that suffers a loss due to the contract violation of the other party is under obligation to take appropriate measures to prevent aggravation of the loss. Otherwise, he may not demand compensation for losses that occurred due to failure to take prompt and appropriate action.

IV. Settlement of Disputes

Article 37 of the FECL prescribes that disputes arising from a contract may be settled through negotiation, mediation, arbitration or by lawsuit.

Friendly negotiations are consultations conducted directly between the parties after a dispute arises and leading to the settlement of the dispute among the

parties themselves. In the course of negotiations both parties will make certain concessions and on finding these mutually acceptable will arrive at a reconciliation, without the need for any third party to participate.

Mediation is conducted between the two parties under the direction of a mediator, urging the parties to arrive at a reconciliation and to resolve the dispute between them. In China mediation takes place on the basis of mutual consent of the parties under the direction of the foreign economic relations and trade arbitration organization, and at times it may also be possible to conduct the mediation jointly with the arbitration organization of another pertinent country.

Arbitration is an important form of settling international economic disputes. According to the provisions of the FECL, cases of parties not wanting to negotiate or mediate the dispute, or having failed to reach agreement in negotiations or mediation may submit the dispute to arbitration by the Chinese arbitration organization or by a foreign arbitration organization, according to the arbitration clause in their contract or an arbitration agreement in written form signed sometimes later. The arbitration organization can accept only cases at the request of the parties, based on the arbitration clause of their contract or on an arbitration agreement; without such arbitration clause or arbitration agreement, the arbitration organization cannot accept and hear cases.

If the parties have no arbitration clause in their contract and also did not sign an arbitration agreement later on, each party may in case of dispute file a lawsuit in the people's court.

The FECL has, furthermore, clear and definite provisions on the assignment, alteration, cancellation and termination of contracts. Due to limitations of space, the present article cannot introduce these in further detail.

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CSO: 4006/176

19 June 1986

FOREIGN TRADE AND INVESTMENT

BRIEFS

ELECTRONICS EXPORTS PUSHED--The China Electronics Import/Export Corporation operates on behalf of the Chinese electronics industry which currently numbers some 2000 enterprises. Chinese electronics exports amounted to approximately \$100 million in 1984. The number of products has risen from 20 in 1980 to a present 90. Exports are aimed at the United States, Japan and Europe and intensified efforts are to be aimed at South America, Africa and the Near East. [Ronn WEHRTECHNIK in German May 86 p 77] /7358

ELECTRICAL MACHINERY CONTRACT--Stockholm, 12 Apr (AFP)--Cewe Instrument AB, a Swedish firm specializing in electrical machinery, has won a contract worth eight million kronor (about U.S. \$1 million) to supply a Chinese company in Beijing, economic sources said here Saturday. The Swedish company, based in Nykoeping, 100 kilometers (63 miles) southwest of here, has also signed a series of agreements for a 10-year technological alliance with the Chinese firm, which was not named, the sources said. Cewe Instrument AB won the contract, which may be followed by others, according to the sources, against strong competition from several large multinationals, including Siemens of West Germany. [Text] [Paris AFP in English 1400 GMT 12 Apr 86 AU] /9738

CSO: 4020/316

INTERVIEW WITH STATISTICS OFFICIAL ABOUT POPULATION ISSUES

Beijing JINGJI RIBAO (ECONOMIC DAILY) in Chinese 24 Feb 86 p 2

[Article by Cheng Yuan [4453 6678]: "A Discussion on Population, Interview with Sun Jingxin [1327 0352 2450], Head of the National Statistics Bureau Population Statistics Department"]

[Text] The population problem is the crucial component in the coordinated development of China's economy. The population situation and its effect on future development is a problem concerning everyone. Pertaining to this, we recently interviewed Comrade Sun Jingxin, who is head of the population statistics department of the National Statistics Bureau.

Sun Jingxin told us that in recent years China has been successful in controlling population growth. In the last 5 years China's planned birth rate gradually increased each year, which largely reflected that the total number of children being born to a woman of childbearing age fell dramatically. During the Sixth 5-Year Plan, the population increased by more than 12 million people annually, a reduction of more than 100,000 from the annual average of the Fifth 5-Year Plan. At the same time, the condition of the population improved greatly as child care was excellent, and both the disease and mortality rates fell noticeably. Life expectancy increased to 68 years, which is 11 years higher than in 1957 and also higher than the world average.

Sun Jingxin said that in the last 2 years, China's population growth had settled into a low period, but that this could not be misinterpreted to mean that the problem of controlling population growth had been solved. Compared to developed nations, China's growth rate is still one-third higher. This is especially a result of China's large population base and the tremendous inertia of population expansion. In the next 10 years, there is the potential for a lofty birth rate. If things get out of control and the population starts to grow wildly, the growth rate could attain unprecedented speeds. Even if the present overall birth rate of 2.2 percent gradually falls to 1.8 percent by the year 2000, the total population of China will have increased by 220 million. Thus the task of controlling population growth most assuredly cannot be relaxed. Sun believes that the most important thing that could hinder low growth rates in the population is the high rate of pregnancies. Because four-fifths of the females of childbearing age are in the countryside, in the future population control must be stressed in rural areas.

Because China's rate of population growth has declined quickly in the last 10 years, people are worried that China's population is aging. Sun Jingxin said that in general, if the elderly account for more than 7 percent of a population, it could be classified as an older population. In 1982, those 65 and up only comprised 4.8 percent of the population; it is calculated that by the end of the century it will surpass 7 percent. But because China's birth rate has fallen quickly, the population is aging rather swiftly. Furthermore, as China's total population is vast, the absolute number of senior citizens is correspondingly large. However, Sun feels that the problem of an aging population will not have that great an impact on the labor resource pool and its quality within the next half a century. Sun says that from now until the 21st century China's work force will continue to grow. In 2040, though the proportion of elderly in the population will reach 20.9 percent, the labor force will still have nearly 750 million people, which is 120 million more than in 1985. Within the next 6 years there will no longer be any shortage in the labor pool. In fact, it will be precisely the opposite, as pressure to find employment will become rather intense. Along with an increased number of senior citizens, care for the elderly will increase beyond what would naturally occur, but on the other hand, the need for child care will steadily decrease. Thus the proportion of the total population requiring care will decrease continuously before 2010, and by 2040 the 1982 level of 63.26 percent will still not have been surpassed. This indicates that there will not be a problem with a minority caring for a majority. Nevertheless, an increase in the population of the elderly necessarily creates a definite burden for society. Starting from the present, China must draw up plans and take steps to expand health maintenance and service facilities for the aged.

In discussing the condition and makeup of China's population, Sun Jingxin said that before liberation the nation's economy was backward, the cultural level was low and the illiteracy rate was more than 80 percent. Since the establishment of new China, though the illiteracy rate has steadily fallen, it is still higher than many developing nations. According to data from the third national population census, 34.5 percent of those 15 and up are either illiterate or (half)-literate, and among those who are employed, illiteracy is still a high 28.2 percent.

Sun Jingxin also gave us an analysis of the professional makeup of China's work force. He noted that at present 10.35 percent of the work force is employed in tertiary industries, which is not only vastly lower than the 67.9 percent in the United States and 56.5 percent, in Japan, but it is also lower than most other developing countries. The structure of China's tertiary industries is also illogical: services for production and daily life as well as service departments for raising scientific and cultural levels and the quality of life account for a very low proportion. Thus it is difficult to make headway regarding clothing, food, and general consumption problems. Enterprises and service units must set up their own service departments themselves. At present, among that part of the work force engaged in tertiary style industries, about one-third is scattered about in various enterprise units that are not classified as social service trades. These units are integrated systems and are universally either "large and comprehensive" or "small and comprehensive," and so they are known as "factory units that are societies unto themselves." The socialization of service industries is low,

which hinders the professional effectiveness of all kinds of enterprises and agencies. Sun Jingxin thinks that the initiation and development of tertiary industries is an essential trend in furthering the division of labor and in steadily increasing labor productivity; it is a very important characteristic of a modernizing economy. China's superior, planned, socialist economy is the most fitting starting point for meeting the development needs of the whole society, for establishing and perfecting the social service structure, for modernizing social services, for increasing labor productivity and for accelerating economic development.

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POPULATION

DEMOGRAPHIC RESEARCH ON CHINA'S ETHNIC MINORITIES REVIEWED

Beijing ZHONGGUO SHEHUI KEXUE [SOCIAL SCIENCES IN CHINA] in Chinese Vol 1,
Jan 86 pp 79-90

[Article by LU Guangtian [0712 0342 1131]: "Review of Demographic Research on China's Minority Nationalities"]

[Text] Step by step, research on the population of the minority nationalities is becoming more thorough in China. Such research involves both ethnology and demography, and many countries around the world are taking it seriously. For example, Canada has investigated and made forecasts about the population of its Indian tribes. The USA is investigating natural growth, marriage and other aspects of the population of both its ethnic minorities and its blacks. Israel is developing its research of ethnic population, immigration and housing policies. (Footnote 1) (See Yang Yixing [2799 0001 2502] and Zhang Tianlu [1728 1131 6424], "Some Views on and Suggestions for Demographic Research on China's Minority Nationalities" (mimeograph), paper read at Second Symposium of the Chinese Ethnology Society). It is especially worth noting that Soviet research on the USSR's minority nationalities has gradually become a discipline known as ethnodemography; the monograph "Ethnodemography" by Keciluofu [4430 5417 3157 1133] was published in 1977. Generally speaking, no one has any differences on the objects of research in the discipline; it is the research methods that apparently still need to be discussed. In "Ethnodemography," Keciluofu asserts that "ethnodemography is a discipline whose primary object of research in the ethnic group. The discipline's central task is to use demographic methods to study the characteristics of the reproduction of each ethnic group's population." (Footnote 2) (Quoted in He Guoan [6320 0948 1344]: "Soviet Ethnology Studies Reality," Nationalities Institute, Chinese Academy of Social Sciences. See also "Ethnodemography Is a Discipline" in "Translations About Nationalities," 1983, issue 1). Here he stresses the use of demographic methods to study ethnic populations. We believe that this is insufficient. Research on the population of minority nationalities requires the use of both demographic and ethnological methods. This is because the population that is the object of demographic study has both natural and social attributes, while the essence of population is its social attributes. As far as the social attributes are concerned, the population process is determined by the social mode of production and by the contradictory movements within the superstructure suited to that mode. Generally speaking, therefore, demographic research should be done within the

context of the contradictory movements among the productive forces, the relations of production, the superstructure and the economic base. This is the basic method of demography. But because minority nationalities have their own special social life, a fair number of them not only differ from the Han in their stages of social development and in the levels of the productive forces and the relations of production but differ even more greatly from the Han in their superstructures. Their own special social structure, culture, psychology, customs and habits all directly influence the population processes of the minority nationalities. When studying the demography of those nationalities, therefore, we need to apply more than the general methods of relatively high-level demographic research. We also need to apply the principles and methods of relatively low-level ethnology. Generally speaking, however, our comrades' discussions do not contain the distinction between these two levels; the research methods of ethnodemography are succinctly described as "necessarily both demographic and ethnological." This article also adopts this succinct description.

1. Conceptual Breakthrough and the Pursuit of Method

In the first half of this century, the study of the populations of minority nationalities had already begun in China. For example, our famous demographer Chen Da [7115 6671]--in his book "Modern China's Population" that he wrote before liberation--brought up policy issues concerning population growth among Xinjiang's minority nationalities and furnished materials on the population of some of the minority nationalities in the Kunming area in Yunnan. There are also the examples of the surveys of minority nationality populations that we can find in "Demographic Survey of 80 Miao Families in Southern Sichuan" by Yang Han [2799 3352]; in "Population Issues in Xikang" by Wu Wenhui [0702 2429 2547] et al; "Demographic Survey of the Miao of Xuyong in Southern Sichuan" by Hu Qingjun [5170 1987 6874]; and in "Contemporary Geographical Distribution and Population Estimates of Several of Yunnan's Aboriginal Peoples" by Tao Yunkui [7118 0061 6652]. All of them provide valuable material for ethnodemographic research. After liberation, Professor Sun Jingzhi [1327 2417 0037] was the chief editor of "The Geography of China," one of whose chapters discussed China's minority nationality populations. Particularly noteworthy are the following: in 1956 the Nationalities Committee of the National People's Congress organized 8 fairly large groups to investigate minority nationalities; in 1958 the Nationalities Institute of the Chinese Academy of Sciences organized 16 such groups. These groups conducted thorough field investigations of social history in every minority nationality region and accumulated plenty of demographic material. In their compilation entitled "Three-Volume Collection" and in the "Five Collections" that the State Nationalities Commission plans to publish, (Footnote 1) ("Three-Volume Collection" and "Five Collections:" starting in 1959, the two sets of investigative groups issued in succession "A Short History of the Minority Nationalities," "Brief Annals of the Minority Nationalities" and "The Minority Nationalities' Autonomous Regions." In 1979, the State Nationalities Commission organized an editorial board for "Five Collections on Nationality Issues. On the basis of investigative material from the past and of the three collections, the board planned to compose afresh the following: "Collection of the Short Histories of China's Minority Nationalities,"

"Collection of the Brief Annals of the Languages of China's Minority Nationalities," "Collection Pertaining to the Autonomous Areas for China's Minority Nationalities," "Collection of Materials on the Social Histories of China's Minority Nationalities" and "China's Minority Nationalities." By the end of October 1985, 134 copies had already been published; everything is to be published in 1986) there are special chapters and sections on the populations of every nationality and every region. All this has laid the foundation for the study of China's minority nationality populations.

In step with the development of demography and ethnology, the latter part of the 1970's saw even more researchers attracted to the investigation and study of China's minority nationality populations. The increase in the number of such researchers was conspicuous. To wit, the Chinese Ethnological Society was founded in October 1980, and the Chinese Demographic Society was founded in February 1981. In October 1981 there took place in Guiyang the "National Symposium on the Investigation and Study of Some Minority Nationality Populations." Based on the investigative materials and papers presented at this symposium, "Materials on the Populations of Some of China's Minority Nationalities" appeared in print after the symposium. (Footnote 1) (Special issue of "Newsletter of the Chinese Demographic Society," 1981, issue 5). In 1982 the "National Symposium on the Investigation and Study of Minority Nationality Populations" took place in Lanzhou and discussed the following: (1) the present state of minority nationality populations; (2) the characteristics of the development of those populations; (3) the influence of religion on the development of those populations; and (4) birth control among the minority nationalities. After discussing these issues, the symposium concluded: (1) that the minority nationality populations must have planned growth; (2) that the quality of those populations urgently awaits improvement; and (3) that investigation and study of those populations must be enhanced, especially the study of comprehensive and theoretical issues. This latter symposium shows that the standard of research on China's minority nationality populations has already risen greatly.

In recent years, ethnologists have produced the following noteworthy books in the field of ethnic populations: (1) "Population Handbook," edited in 1981 by Comrades Hong Kang [3163 1660] and Wu Zhongguan [0702 1813 6034], (Footnote 2) (Published in 1981 by the Chengdu Birth Control Propaganda Center) which elaborates fairly systematically and comprehensively on the objects and meaning of the study of ethnic populations; (2) "Some Views on and Suggestions for Demographic Research on China's Minority Nationalities" by Comrades Yang Yixing and Zhang Tianlu, which advances a set of tentative ideas on ethnodemographic research that combine ethnology with demography; and (3) "On Ethnodemographic Research" by Comrade Tao Changping [7118 7022 1627], (Footnote 3) (In "Interethnic Unity," 1984, issue 3) which sets forth valuable exploratory suggestions for the study of minority nationality populations. In addition, many comrades have done long-term field studies in minority nationality villages and obtained plenty of firsthand material. During 1980-4 China's press published a total of several tens of articles about research on minority nationality populations. The articles that examined the broad issues concerning China's minority nationality populations raised the following points:

1. At the time of the 1982 census, China's minority nationality population stood at 67.23 million and accounted for 6.7 percent of the country's total population. In terms of population growth, the minority nationality population increased at a generally faster rate than did the Han after liberation. During 1964-82, China's population grew at an average annual rate of 2.09 percent, while the analogous rate for the minority nationality population was 2.49 percent. In the 4 years from 1978 to 1982, the latter population increased at an average annual rate of 4.77 percent. In this way the nationalities of more than 1 million people, which numbered 10 in 1953, numbered 15 in 1982.

2. Although the minority nationality population is small in relative terms, it is not small in absolute terms, since the United Kingdom, France and West Germany all have populations of under 67.23 million. Moreover, because of the youth of the minority nationality population, there is a great potential for growth. In the not-too-distant future, it is bound to achieve a new peak in population growth.

3. This type of growth rate for the minority nationality population has already had two consequences. The first is the lack of coordination between population growth and economic growth, as cultivated land (grasslands) and other natural resources are decreasing year after year in per capita terms. The second is that the population has grown so fast that it is exceeding the progress made in the areas of culture, education and public health. This in turn has affected the improvement of health and education among the minority nationalities and has lowered the quality of their populations.

4. Before liberation, 29 of China's 55 minority nationalities were in the primitive stage, the slave stage or the serf stage of social development. Hence these nationalities' populations are still growing relatively slowly.

Most of the demographic literature on minority nationalities deals with the minority nationality population in a single region (e.g., Xinjiang, Ningxia, Guangxi, Qinghai, Yunnan, Guizhou, Gansu, Yanbian, Guangdong, Hunan, Fujian, Tibet or Sichuan). It consists of an introduction to the region's minority nationality population and an analysis of its population policy, materials and population composition. Some of the literature deals with the population of a specific people (e.g., the Dongxiang, Hui, Wa, Dai, Oroqen, Mongols, Tibetans, Yi, Jinuo, Koreans, Yao, Zhuang or Li). Representative works of this type of literature include studies of the Yi of Llangshan and of the Tibetans of Tibet, Sichuan and elsewhere. They will be reviewed later in this article.

In addition to the achievements of research mentioned above, the populations of the Kazakhs, Yugur, Tu, Shui, Jing, Mulam and Blang have also been investigated.

From the demographic literature already in print on the minority nationalities we can tell that some extremely valuable breakthroughs have occurred in this field in terms of academic concepts. In the first place, we are starting to take seriously the issue of population quality. In the past, we often looked upon the minority nationality population growth rate and the minority

nationality population as a percentage of China's population as the sole criteria by which to judge the implementation of the nationalities policy. This was correct in a sense, but it also had a certain one-sidedness. Now, quite a few comrades point out that excessively rapid minority nationality population growth has meant lagging economic growth and that from now on we should make the improvement of population quality a major task. In the second place, we have explicitly raised the question of controlling the minority nationality population. Everyone has affirmed the necessity of controlling the growth rate in densely populated minority nationality areas. On the other hand, must we pay attention to controlling population growth in sparsely populated minority nationality areas like Tibet (1.6 persons per square kilometer) and Qinghai (5 persons per square kilometer)? Some believe that such areas can do without population control, while others hold the opposite view. The latter group of comrades believes that although minority nationality areas (like western China) are sparsely populated with an average density of fewer than 10 persons per square kilometer--some have an average density of under 1 person per square kilometer--the bulk of these areas are desert, high mountains or barren saline-alkali soil. They have an arid, cold climate with little rainfall. They lack substantial acreages of forest and vegetation as well as sources of water. Hence they can support only a limited number of people, which means that population control is an urgent task there.

In this writer's opinion, the published literature shows that although there has been a conceptual breakthrough in ethnodemographic research, the methodology is still plagued with a problem. This problem is simply limited to applying demographic methods while neglecting the ethnological angle. This tendency is primarily evident in the neglect of research on the original social formation of minority nationalities, in the lack of research on their economies and modes of production and in the lack of research on their marital and other customs and habits and even on their religious beliefs. For example, as far as culture, customs and habits are concerned, we must do in-depth studies of the extent to which religion has influenced and still influences changes in minority nationality populations; of the past and present influence of marriage patterns or birthrates and physical quality; of the function of family structures of all kinds in the population phenomenon; and of the influence of the feudal idea of male superiority, customs favoring females over males and other customs on population growth. The minority nationalities' population phenomenon is conditioned by social formation, culture and mentality. Only by using demographic and ethnological methods at the same time can we researchers make further breakthroughs.

2. Ethnodemographic Research in the Light of Every Kind of Social Formation

Marxism holds that the social mode of production determines demographic laws. The study of the demographic laws of minority nationalities requires us to begin with their modes of production, which indeed must be investigated within the context of the contradictory movements among the productive forces, the relations of production, the economic base and the superstructure.

Just after the founding of the People's Republic, China had a minority nationality population of more than 36 million. Approximately 4 million of

those people lived in feudal serf societies, about 4 million lived in slave societies and more than 6 million still lived in the late stages of primitive society or retained pronounced vestiges of the primitive commune system. As is the case with these social formations, their economies still were characterized by gathering, fishing, hunting, nomadism and slash-and-burn agriculture; there were also many kinds of religious beliefs, as well as customs and habits. Although some of these minority nationality areas made a direct transition to socialist society while others arrived there through democratic reform, socialist transformation and socialist construction, all the leftovers from the old socioeconomic formations and the interrelated customs and habits still influenced the development of their populations.

Before liberation in the north, the Oroqen and some of the Ewenki lived in patriarchal clan communes and regional communes (or rural communes) characteristic of the late stages of primitive commune society. In Yunnan, this was the case with the Drung, Nu, Lisu, Wa, Benglong, Jingpo, Lahu, Kucong, Blang, Achang, Naxi and Jinuo; in Tibet with the Deng and lhoba; on Hainan with the Li; and on Taiwan with the Gaoshan. As for their economies, the northern minority nationalities were primarily primitive wandering hunters, fishermen and nomads. In the south, the minority nationalities mainly engaged in primitive slash-and-burn agriculture, and to varying degrees retained the characteristics of clan communes or the disintegrating stages thereof. For example, the tribes of wandering Ewenki hunters in the north more or less completely retained the basic production and way of life of the patriarchal clan commune's communist system. Among these Ewenki, all of the members of the clan communes, which were based on ties of blood, practiced the principles of common production and equal distribution. (Footnote 1) (LH Guangtian [0172 0342 1131]: "Primitive Social Formations Among Northern Nationalities," Ningxia People's Publishing House, 1981, pp 9-10). The social development of the Oroqen, on the other hand, had already reached the end of the primitive society and entered the stage of regional communes. The system of ownership was both public and private. Because of the considerable consolidation of the system of private ownership, phenomena like inequality in property and exploitation in the use of horse had already appeared. The Oroqen stood on the threshold of class society but had yet to complete this major historical transformation. (Footnote 2) (Ibid.). The population phenomena of the Oroqen and some of the Ewenki deserve study. For example, the Oroqen are one of China's smallest minority nationalities. Before they settled down in 1953, their population growth was little short of stagnant for a very long historical period. They belonged to the population reproduction category known as primitive, i.e., high birthrate, high mortality rate and negligible growth. This is a population phenomenon worthy of study. Quite a few researchers have taken note of this matter and attempted to explain it. Some comrades believe that the historical roots of this population phenomenon lie above all in the Oroqen's long period of production based on hunting, when life had no guarantees and their way of life was also extremely simple. At that time the Oroqen suffered political oppression and discrimination. Second of all, during the existence of the Japanese puppet state Manchukuo, the Japanese aggressors not only did not allow them to develop economically and culturally but also encouraged them to use drugs, thus doing serious damage to the Oroqen spiritually and physically. (Footnote 3) (Lin Shengzhong [265]

4141 0022]: "The Present State of the Oroqen Population in Heihe Prefecture and the Reasons for its Slow Growth," "Demography," 1984, issue 1). Other comrades have exposed the Japanese aggressors' massive spread of the germs of bubonic plague, typhoid fever and other diseases in Nei Monggol during those years, which claimed many Oroqen lives. Both these explanations are well-grounded and credible. Nevertheless, it must still be noted that the Oroqen were primarily a hunting people whose pre-liberation social development was still in the late stages of primitive society. Given the rather special nature of this nationality, it is perhaps inadequate to use only the methods of general demography when studying its population. We believe that ethnological methods must also be applied in order to enable the discussion to be thorough. For example, let us do more in-depth research on the influence exerted on population growth by this nationality's marriage patterns, child-bearing system and way of life that is based on a primitive hunting society.

This writer believes four things. First, the Greater and Lesser Hinggan Mountains are one of China's backyards. In their stretches of several thousands of li of primeval forest has lived generation after generation of Oroqen and some Ewenki, with both groups being mainly wandering hunters. Before liberation, they used horses and reindeer to pursue and capture wild game in the immense forest throughout the year. Given their life of migratory hunting, their productive forces were extremely weak and the wild game limited in number. Hence life lacked guarantees. This backward mode of production naturally determined that their populations could not grow too fast.

Second, the primitive hunting economy determined that the Oroqen and some of the Ewenki would have a primitive type of population reproduction, i.e., one with a high birthrate, high mortality rate and low growth rate. Since these Oroqen and Ewenki were primarily meat-eaters, their child-bearing ability was fairly strong. Their women's lifetime child-bearing rates far exceeded those of women in ordinary agricultural and pastoral areas. For example, in the Qiganxiang area of the Ergun Left Banner in Nei Monggol, the hunter Piaodeer [4384 1795 1422] and his wife had 12 children, as did the hunter Yinakenqi [0181 6719 5146 3049] and his wife. The Dabayue [1129 0360 2588] had 10 members. Although these Oroqen and Ewenki had such high birthrates, the hardship of their lives of migratory hunting and epidemic disease both ensured high mortality rates. In the past, these nationalities lived in extremely simple and crude tents known as "immortals' columns." Before a woman gave birth, custom required that another tent be put up. This tent could hold only one person. It was called "jiuhahan," i.e., delivery room. Even during raging snowstorms in the dead of winter, the lying-in woman had to give birth there. Hence mother and newborn child often died of exposure and starvation. Moreover, once disease came to the primeval forest, it spread exceedingly fast. The Oroqen constantly suffered from surprise attacks of smallpox, cholera, typhoid fever and pulmonary tuberculosis that claimed many lives. By the time it reached 3 generations, the 1st family mentioned above had 27 members, but 11 of them died for a mortality rate of 40.7 percent. In the 3d family, 9 out of the 10 died for a mortality rate of 90 percent. (Footnote 1) ("Fifth Report of Findings on the Ewenki," Investigative Group for Minority Nationality Social History in Nei Monggol, p 34). Their entire tribe had more than 700 members in the 18th century, 435 in 1899, 315 in 1917, 170 in 1945,

40 in 1954, 141 in 1955, 138 in 1956 and 136 in 1957. Hence their numbers were always on a downward trend. Because the party and the government set up special medical establishments for them after 1957, their numbers had risen to 146 in 1960. (Footnote 1) (Survey done by this writer in 1957-8). During the 22 years from 1960 to 1982, the tribe gained only 40 members for an average annual increase of under 2 persons.

There is one other circumstance that affects population growth. Each clan or regional commune of a nationality of wandering hunters had regular hunting grounds. Because of the limited numbers of wild game, however, chasing wild game into others' hunting grounds often led to armed conflict. This also affected population growth.

Third, in order to investigate a nationality's population growth, we should also investigate that nationality's marriage patterns. The Oroqen and Ewenki marry outside the clan, but youth of marriageable age often could not marry. This was above all because of high mortality rates. At times even an entire clan commune became extinct. This brought about a sharp reduction in the number of clans among which marriage relations could be established, and so many youth of marriageable age had no spouses. Population growth was obviously affected. Moreover, because a clan had a "relationship of revenge" with another clan with which it could have had a relationship of marriage, the number of single males and females increased. Figures from a 1956 study of a 32-household Ewenki tribe show how severe the shortage of potential spouses for youth was: of the tribe's men who were 20 years old or older, 16 were single. Those 16 constituted 45 percent of the tribe's males. Of the tribe's women who were 20 years old or older, 14 had yet to marry. Those 14 accounted for 37 percent of the tribe's females. What is more, 9 households (i.e., 28 percent of the tribe's households) had no married adult males and females. In addition, the mode of production of wandering hunting perforce meant perennial roaming in the forest. Each clan commune was 100 to 200 li away from its nearest neighbor. Regular meetings took place only twice or three times a year. Such little contact placed extreme restrictions on intermarriage and having children.

Fourth, because hunters always have difficult production and living conditions, the Oroqen and Ewenki hunters commonly contracted pulmonary tuberculosis, which made for poor population quality. A 1956 general survey revealed that 86 (or 57 percent of the population) of 138 wandering Ewenki hunters had tuberculosis. In the Oroqen areas, about half the population had that disease.

Since the 1960's, the Oroqen and some Ewenki have begun the transition from the primitive type of population reproduction to the second type, which is characterized by a high birthrate, a low mortality rate and a high growth rate. Nevertheless, the leftovers from the old primitive socioeconomic formation still play a negative role.

One after another, the Oroqen and Ewenki left their wandering hunting behind and settled down in 1953, 1958 and 1965. Some researchers have made these remarks about the effect of such a change in life style on population growth:

1. Since they settled down, the state has spent several hundred thousand yuan to build a four-room brick house for every family and to set up medical establishments in the new housing developments. Hence living conditions have improved substantially. On the other hand, because the hunters were used to the fresh air of the forest, the incidence of pulmonary tuberculosis increased again after they moved into villages and small towns with polluted air. A medical census of 1982 in Baiyinna Township in Heihe Prefecture showed that 60 of the 153 Oroqen examined had tuberculosis. There were 246 Oroqen in the township at that time. (Footnote 1) (Lin Shengzhong: "The Present State of the Oroqen Population in Heihe Prefecture and the Reasons for its Slow Growth," "Demography," 1984, issue 1).

2. Because the Ewenki and Oroqen had long lived in the forest with its cold climate, they had long ago grown accustomed to excessive drinking. After settling down, they found it convenient to buy alcohol. Thus their excessive drinking became worse. As a result, population growth was affected.

First of all, excessive drinking affects the infant survival rate. Both sexes among the Ewenki and Oroqen drink too much. Alcohol consumed by pregnant women irritates their fetuses and prevents the normal growth thereof. Moreover, the babies cannot survive after birth. Hence infant mortality is rather high. In 1982, a survey of 187 women showed that after their peoples settled down, 186 of the 730 babies born to them died. This mortality rate was 25.4 percent. (Footnote 2) (Ibid.).

Second of all, heavy drinking causes family quarrels, more criminal cases and more cases of alcohol poisoning. All this leads to an abnormal increase in the number of deaths. The hunters all have guns. When they lose control after drinking, they often kill with them.

The chart on the next page consists of statistics on births and deaths among the Oroqen of the area of the Greater Hinggan Mountains during 1980-2. It shows that during those years, there were 15 births and 46 deaths, with at least 24 of the latter being abnormal (death by gunshot, hacking or poison or suicide by hanging). In this area, then, the Oroqen registered negative population growth. (Footnote 3) (Ma Yuqian [7456 5038 0578]: "The Oroqen of the Greater Hinggan Mountain Area," (mimeograph), August 1982).

Another example of abnormal death is to be found among the Ewenki of the Ergun Left Banner. There were 186 persons in the banner in 1982. After the Ewenki settled down in 1965, 5 persons drank too much and were beaten to death; 2 killed themselves after drinking too much; and 13 children died young because their mothers drank too much during pregnancy. In addition, eight persons are in prison for murder because they beat their victims to death after drinking too much. The banner had 143 Ewenki in 1960 and 186 in 1982. During those 22 years their numbers only increased by 43.

From all this we can tell that old customs and habits have had a major effect on population growth among minority nationalities.

Births and Deaths Among the Oroqen of the Greater Hinggan Mountain Region in 1980-2

Year	Births	Deaths		
		Total	Normal Deaths	Abnormal Deaths
1980	5	20	11	9
1981	7	13	6	7
1982	3	13	5	8
Totals	15	46	22	24

Here is another thing worth noting. Since the Oroqen and Ewenki hunters settled down, many new changes have occurred among them in such areas as marriage and population because they have begun to inhabit areas together with the Han. As an example, let us take the Oroqen settlements in Heihe Prefecture. The Oroqen make up 22 percent of the population in Xin'e Village, while the Han make up 78 percent. For Xinxing Village the corresponding figures are 14.5 percent and 85.5 percent and for Xinsheng Village 21.6 percent and 78.4 percent. (Footnote 1) (Lin Shengzhong: "The Present State of the Oroqen Population in Heihe Prefecture and the Reasons for its Slow Growth," "Demography," 1984, issue 1). We can tell that the Han population in these settlements predominates. This has a great affect on the economic and cultural lives of the Oroqen and Ewenki, as well as on their families and marriages. Foremost is the change in the area of marriage. Originally, half of the young Ewenki men and women could not marry. After their people settled down, 40 young men and women married either Han youth or youth of other nationalities. The newlyweds included 24 women and 16 men. Their 43 children definitely constitute the next generation of Ewenki. (Footnote 2) (Ibid.). Since the Oroqen and Ewenki settled down, their intermarriage with the Han has strengthened them and enabled them to increase their own population. This is undoubtedly beneficial to their social development.

The aforementioned population phenomena among the Oroqen and Ewenki constitute a model for the population phenomena occurring among northern China's nationalities of wandering hunters with relatively small populations. These nationalities are in the process of changing from primitive to socialist society.

South China has more than 10 nationalities with primitive social formations. They basically continue to use the primitive farming methods of "slash-and-burn" and rotating cultivation. Their productive forces are exceedingly weak. This type of primitive agriculture differs from the hunting in the north in that it relies primarily on increasing the labor force in order to increase production. A larger labor force means greater income. Thus there is a more urgent demand for a bigger population than among the hunters. The southern nationalities' marriage customs, however, have seriously affected population

growth, even with calamitous consequences. Not so long ago, for example, nationalities like the Jinuo, Nu and Lisu still were primitive in that they married within the clan or the family and in that they had such vestiges as consanguineous marriage and communal marriage. Marriage between close relatives was even more common. Hence quite a few children suffered from congenital hypoplasia or physical degeneration. Some carried every kind of congenital and hereditary illness. As far as both physical strength and intelligence were concerned, these nationalities' populations were far inferior to those of advanced areas. "The Harm of Marriage Between Close Relatives as Seen in an Investigation of the Jinuo," an article by Du Yuting [2629 3768 0080] and Ruan Fangfu [7086 5364 6346], is representative of research on this problem. (Footnote 1) ("Population and Economy," 1981, issue 5). It illustrates the effect of Jinuo marriage patterns on population. There are more than 10,000 Jinuo, who are gathered in Jinuo Luoke Commune, Jinghong County in Yunnan's Xishuangbanna. At the time of liberation, they were in the late rural commune stage of primitive society. They still had vestiges like consanguineous marriage within the clan. For example, until the 1950's Baduo Village in the hinterland of Jinuo Luoke Commune was a consanguineous hamlet and, moreover, had only one clan. The prevailing custom was marriage between persons who were a generation apart; marriage between brothers and sisters was not customary. The hamlet's population never flourished. According to the recollections of septuagenarians and octogenarians, the clan had only 13 families and 80 members in its heyday. An 84-year-old woman of Baduo Village married a blood relative from her own clan. They had five children, the first three of whom died before the age of one. Their fourth and fifth children also died young. Marriages between close relatives have had catastrophic consequences for Jinuo population growth. The Jinuo had 36 more than 240 years ago; only a few remained on the eve of liberation. For example, long ago Shaoniu Village had an upper part and a lower part. Later, all that remained of the upper part was an empty foundation of a house, the last two residents had moved away. The danger of consanguineous marriage was the striking element in the disappearance of the upper part. The authors point out that the transition from marriage between close relatives to marriage outside the clan is long and hard. Some clans have now got rid of marriage between close relatives. Baya Village, for example, has forbidden marriage within the clan on pain of death. Some villages, however, stubbornly retain vestiges of that kind of marriage. Although that kind of marriage is forbidden in Yanuo Village, there is an accommodation: if two blood relatives from the same clan love each other and want to marry, the woman need only hold a ceremony wherein she recognizes an elder from another clan as her nominal father. In this convenient fashion she can gain customary approval of her marriage.

The custom of marriage between close relatives among the Nu and some of the Lisu resembles that among the Jinuo. "An Investigative Report on the Social History of the Nu" and "Yunnan's Minority Nationalities" are two books that provide us with valuable material on this area. Marriage among the Nu and Lisu is primarily single marriage, and no one may marry his or her father, mother, son, daughter, brother or sister. On the other hand, anyone may marry his or her paternal cousin or second cousin of the same surname. Moreover, persons from different generations, i.e., aunts and nephews and uncles and

nieces who are related by blood--may marry. Furthermore, their system of transferring homes allows a man to marry his widowed daughter-in-law or his late father's concubine. Even more common is marriage between maternal cousins. According to a 1956 survey of 36 Nu households in Mujia Village in Fugong County, 5 persons had married paternal cousins, 2 had married maternal cousins and 5 had married members of another generation. A survey of 38 married couples in Jiajia Village in Bijiang County showed that 15 (39.5 percent) were outside the clan, while 23 (60.5 percent) were within the clan. (Footnote 1) ("Investigative Report on the Social History of the Nu," "Five Collections on Nationality Issues," Yunnan Provincial Editorial Committee, Yunnan People's Publishing House, 1981, p. 71). Marriage between close relatives has an extreme effect on the next generation, which has more than its share of mental retardation, deformities, hemophilia and other congenital defects. It obviously affects population quality. (Footnote 2) ("Yunnan's Minority Nationalities," edited by the Institute of History of the Yunnan Provincial Academy of Social Sciences, Yunnan People's Publishing House, 1980, pp 101, 102, 114). Thus population growth in some Lisu and Nu areas is fairly slow, and population quality awaits improvement.

The study of population phenomena among nationalities that had primitive societies before liberation has more than just theoretical significance. It is also of major practical significance. Because these phenomena occurred in primitive societies in which we can still search for their traces even today, it is obviously worthwhile to study them demographically, historically, ethnologically and sociologically. At the same time, such study has provided an important theoretical basis for our formulation of population policy. In addition, we can also see that it is precisely because of our application of both demographic and ethnological methods that we have the aforementioned knowledge of the population phenomena among these nationalities. It would be hard to imagine if we were to abandon ethnological methods and look forward to getting the aforementioned knowledge. This may serve as an excellent example to support the previously stated viewpoint on the methodology of ethnodemographic research.

Before democratic reform, the Yi of Sichuan, Yunnan and Big and Little Liang Mountains still lived in a more or less completely slave society. Comrade Xu Ming [1776-1900], in his article entitled "Demographic Study of the Slave Society of the Yi of the Liang Mountains" (published in "Studies of Guizhou's Nationalities," 1984, issue 3), makes the following points:

(1) Natural agriculture controlled the slave society of the Yi of the Liang Mountains, and its productive forces were weak. Hence the development of agricultural production and animal husbandry depended primarily on the growth of the laboring population.

(2) The society of the Yi of the Big and Little Liang Mountains was rigidly divided into four classes: the nuohuo, qunuo, ajia and xiaksi. The nuohuo was the ruling class; the others were the ruled. The nuohuo made up 7 percent of the population, the qunuo 55 percent, the ajia 30 percent and the xiaksi 8 percent.

(3) The xiaxi, ajia and qunuo slaves who did corvee labor for their masters. Owners frequently worked in a group of 20 to 30 on a piece of land under the supervision of a manager hired by the owners. The slaves had no interest in this kind of compulsory labor and often were slack in their work. Naturally, their efficiency was low. Thus the slaveholders needed to increase the labor force in order to increase their income. First, they required the qunuo, xiaxi and ajia to marry early and have many children so as to shorten the reproductive cycle and to increase the labor force as much as possible. Second, to shorten as much as possible the time spent by lower-class children as consumers, the upper class did its best to make them take part in production early on (in general the children began engaging in agricultural production at about the age of 10). The amount of income for ajia and qunuo households, moreover, depended on the size and physical strength of their labor forces, so they too hoped for large families. In sum, the desire of both the slaveholding class and the ruled strata for population growth reflected the slave system's demand for a large increase of the population. On the other hand, the specific content of each class' demand for a bigger population in the Liang Mountains varied:

Nuohuo. Because the Nuohuo (the slaveholders) married their own kind, 30 percent of their marriages were between maternal cousins. Thanks to such a high rate of marriage between close relatives, the infant mortality rate was 60 percent. On top of that, armed feuds within the ruling class claimed many men's lives. Hence the Nuohuo had a high mortality rate as a class. Although Nuohuo women married young, they did not stay long in their husbands' households, generally moving in only at about age 30. By then they had lost many of their childbearing years, and their lifetime fertility rates were low as a result. All this led to negative population growth among the Nuohuo. Hence they urgently required an increase in their numbers lest they lose their position as the ruling class.

Qunuo. Because the slaveholders had the right to terminate the employment of the Qunuo (the class attached to the ruling class), Qunuo families did their utmost to have more children in order to avoid unemployment. Qunuo women spent a short time away from their husbands' households, and so their lifetime fertility rates exceeded those of Nuohuo women.

Ajia. The Ajia were the slaves who lived beside the slaveholders' house property. They had little property of their own. This made them hope for many children so as to increase their labor force, grow rich and rise to Qunuo status. An Ajia had a wide range of possible spouses, and Ajia women spent an extremely short time away from their husbands' households. Hence the women had a long childbearing period and lifetime fertility rates higher than those of either the Nuohuo or the Qunuo.

In addition, the slaveholders sought to replenish the labor force by converting their personal slaves (the Xiaxi) into household slaves. In this end they often encouraged male Xiaxi to marry and start working and even forced them to marry. The Nuohuo hoped for the birth of many "little slaves" whom they would exploit.

(4) Before democratic reform, an Yi woman averaged 6.5 children, with an average of 3.5 surviving. Hence there were 1.75 surviving children per parent. Within each class, the numbers varied because women began giving birth at different ages. For the Nuohuo, the figures were 5.7, 1.7 and 0.85; for the Qunuo, 6.2, 3.4 and 1.7; and for the Ajia, 7.6, 4.3 and 2.15. These data show that the slaves in the society of the Yi of the Liang Mountains belonged to the expanding model of population reproduction, while their masters belonged to the shrinking model.

Comrade Xu Ming's article uses the specific facts about the population of the slave society of the Liang Mountains to prove the groundlessness of the belief that Engels' theory of "two kinds of production" is applicable only to primitive societies. (Footnote 1) (See Yang Kun [2799 1024]: "On Marx's Formula of Historical Materialism and Engels' Theory of Two Kinds of Production," "Studies in Ethnology," volume 7). At the same time it proves that a certain mode of production always determines a certain marriage system and a certain set of population laws. In the slave society of the Liang Mountains, class relations determined marriage and family relations, while the needs of the slaveholders determined, in the main, the population laws of each class. This article, however, does not take care to apply ethnological methods to the study of the population of the Liang Mountains, and so in some places its discussion is incomplete.

"A Brief Analysis of the Yi Population of the Liang Mountains," an article by Cheng Xianmin [4453 6343 2404] in "Social Sciences in China," (Footnote 2) (See issue 2, 1984) is fairly representative of the research that is now using a combination of ethnological and demographic methods on the population of the Yi slave society of the Liang Mountains. The article probes this society's laws of population reproduction from the angles of social formation, families and their branches and classes, as well as from the angles of family and marriage. On this basis, it delves further into the present status and tendencies of the population changes of every Yi social group now that the Yi have entered the socialist historical stage. It also provides some tentative ideas on how to control the population of the Liang Mountains and on how to improve its quality.

(1) Beginning with the composition of the Yi society's population before democratic reform, Cheng Xianmin points out that the way in which the black Yi (the Nuohuo) divided up their control had a negative influence on Yi population growth. This took the primary form of countless armed feuds between families.

(2) Cheng also points out the stratification of the Yi slave society. Every class' attitude toward having children and its systems of marriage and family were unavoidably linked to that stratification in a close fashion. He disagrees with the belief that the Yi society of the Liang Mountains had uniform marriage customs and a uniform attitude toward having children. Indeed, the author discusses each class' different attitude toward having children. He clearly indicates that the narrow limits on the black Yi's intermarriage and the late entry of wives into their husbands' households severely hindered the growth of that class.

(3) The author believes that in the slave system of the Liang Mountains, economics and politics, as well as the marriage and family systems suited thereto, have determined the regional and generational characteristics of the age composition of the Yi population. For example, the Yi society had fairly small numbers of juveniles and elderly but especially large numbers of young adults and adults in the prime of life. This was a reflection of high infant mortality, sickness and quick death among the elderly and a short average life-span among the population as a whole. It was also a product of the environment peculiar to a slave society. The author also discusses the specific characteristics of the age compositions of the black Yi and their personal slaves, the Xiaxi, as well as the relationship between those characteristics and the positions occupied by the two classes in the stratified slave society.

Combining demographic and ethnological methods, Cheng Xianmin analyzes population growth in the Liang Mountains before liberation. His work makes a methodological breakthrough in the current study of minority nationality populations.

Besides the two articles mentioned above, there is also an article by Wang Duanyu [3769 4551 3768] and Zhang Guangxian [1728 0342 7359] entitled "A Preliminary Analysis of the Growth of the Tibetan and Yi Populations in Sichuan." (Footnote 1) (See "Northwest Population," 1984, issue 1). Taking Meigu County in the Liang Mountains as an example, this article analyzes the population both before and after the establishment of the People's Republic. It contrasts the population of each class but focuses on the post-liberation situation. This sets it apart from the other two articles.

Before democratic reform, some of the regions inhabited by Tibetans, Dai, Uygurs, Moinba and Naxi still retained serfdom. Quite a few comrades have studied the populations of these regions, with the most prominent work having been done on the Tibetans.

Before the establishment of the People's Republic, the Tibetan population was continuously declining. During the Yongzheng reign of the Qing dynasty, it stood at about 2 million (Footnote 2) (Yahanzhang [3660 0698 4545]: "New Writings on the History of Tibet," p 195, Sichuan People's Publishing House) and declined to about 1.2 million by the early post-liberation period. This 200-year decline amounted to 40 percent, or an annual average decline of 0.25 percent. The Tibetan population only grew by 24.5 percent from 1953 to 1978, with a birthrate of merely 23 per 1,000 in 1980. Both the two-century decline and the slow growth over a quarter century deserve study. Quite a few comrades believe that these two phenomena were closely linked to serfdom, Lamaism and polyandry in Tibetan society.

Under serfdom, agriculture and animal husbandry were exceedingly backward in Tibetan areas. Tibet's ruling class, i.e., the three big suzerains (the local government, the nobility and the lamaseries) and its agents made up only five percent of the population but owned all the land and all the means of production. The serfs, who were their owners' personal appendages, made up 90 percent of the population. They obtained land from their owners, by

necessity, by performing services for them and paying rent and taxes to them. The "chaiba" (those who performed services) and the "duiqiong" (poor families) were the primary components of the serf class. The "langsheng," who were slaves, made up the remaining five percent of the population.

In 1984 "Nationality Studies" published in its second issue an article by Wang Duanyu entitled "Lamaism and the Tibetan Population." The author had studied the profound influence of Lamaism on Tibetan population phenomena.

(1) Wang believes that the peculiar trends of the Tibetan population are the results of a combination of economic and many other elements. Particularly worthy of serious attention is the influence of religion on population.

(2) Before democratic reform, the clergy in every county of Sichuan's Garzê Tibetan Autonomous Prefecture constituted 30 to 50 percent of the male population. Of these clergy, 60 percent belonged to the Gelu sect (Yellow Lamaism). Yellow Lamaism's strict prohibition against married monks created a severe surplus of unmarried women.

(3) Many Tibetans did not marry, and most of them left home to become monks (if a household had three sons, two had to become monks). Their female counterparts were called "Buddhist mothers" (nuns). Some women could stay at home and still be "Buddhist mothers."

(4) Because Lamaism propagated the idea that human life had eight sorrows, the chief one of which was human birth, the struggling serfs considered childbirth a sorrow and felt that having many children was a sin. This attitude played a major restraining role as far as Tibetan population growth was concerned.

(5) Because of the influence of Buddhist thinking, Tibetan males had an apathetic concept of the family. Some shirked the responsibility of raising children. Hence the women's burden grew heavier, and so women were unwilling to have many children. There are prescriptions for birth control in ancient Tibetan medical texts, as is reflected in the Tibetans' tradition of birth control.

(6) Lamaseries were a component of Tibetan serfdom. They amassed much of society's wealth but could not use it for production. Hence they both impeded economic development and restricted population growth.

(7) Lamaism restricts the Tibetans' population phenomena and population process, and the abnormal development of Lamaism has been the principal reason for the historically steady decline of the Tibetan population. Because Lamaism, its religious concepts and its view on having children still exert a fairly strong influence on Tibetan society to this day, Tibetan population growth has remained exceedingly slow since democratic reform.

Wang Duanyu reasonably names Lamaist influence as the cause of the Tibetan population's decline and subsequent slow growth. Religion is a form of ideology. Lamaism has prevailed in Tibetan society for a millennium. It

differs from Han religious phenomena, in that its wide range in Tibetan society and the degree to which the Tibetan masses profess it are conspicuous sociocultural phenomena. Some of its doctrines have formed a kind of psychological sediment that the Tibetans' cultural mentality has absorbed. Wang's article can study the Tibetans' population phenomena and population process from this angle, and so it is valuable methodologically. Its inadequacy lies in its near inability to discuss in greater depth these two questions: how different were the attitudes of each class under serfdom toward having children? What role did Lamaism play in the formation of these attitudes? How was the surplus of unmarried women reflected in each class? Moreover, he scarcely writes about marriage patterns--a major omission.

I believe that in addition to the influence of Lamaism, the peculiarity of the Tibetans' population reproduction model as determined by serfdom manifests itself in the polyandry practiced by the serfs. Both before and after democratic reform, this marriage pattern has been commonplace among the Tibetans.

Comrades Ren Zhenluose [0088 4176 3157 5331] and Song Enchang [1345 1869 1603] have investigated Tibetan polyandry fairly thoroughly. (Footnote 1) (Ren Zhenluose: "Polyandry Among Tibetans in the Kang Area," "Studies in Ethnology," volume 7, p 141; Song Enchang: "Remnants of Tibetan Communal Marriage," "Studies in Ethnology," volume 2). In their articles they first of all provide some statistics. In 1958 10 of the 141 households in Nangsecunxika, Zhanang County, Shannan Prefecture, Tibet were polyandrous. In 1982 an investigation revealed polyandrous households in Luhuo, Garzê, Sértar and Baiyu Counties in Garzê Tibetan Autonomous Prefecture. For example, 14 of 227 households in Laima Township in Garzê County were polyandrous, as were 31 of 133 in Shadui Township in Xinlong County. In Baiyu County, some cadres, workers and staff members belonged to polyandrous families.

Comrade Ren Zhenluose generalizes about the types of polyandry among the Tibetans in the Kang area as follows: (1) brothers sharing the same wife; (2) several friends sharing the same wife; (3) a monogamous woman with many "husbands" behind her legal husband's back; (4) an unmarried woman with many "husbands;" (5) a woman with many legal husbands; (6) father and son sharing the same wife. Such polyandry has an extremely unfavorable effect on population growth, because monogamy and polyandry are similar or equal in terms of reproductive ability. The prevalence of polyandry has affected the growth of the Tibetan population. The negative growth registered during 1953-64 was closely linked to both polyandry and the celibate lamas who accounted for a quarter of the population.

The distribution of polyandry among the social strata varies from place to place. Generally speaking, it is relatively more common among well-to-do and rich serf households and among small peasants with a certain amount of property. In some places, however, sons from one household share the same wife, even though their household is not well-to-do and lacks sufficient property to divide among them.

Wives in polyandrous households occupy a fairly high position. They control the finances, take part in production, tend to the children and hold the economic balance.

Comrades Ren and Song also explore in their articles the reasons for the existence of polyandry. In their opinion, it is the product of a serfdom established on a backward and low level of production. For example, if the family property and labor power of the chaiba were dispersed, the chaiba could not withstand the exploitation by their owners. Ren Zhenluose discusses this point in even greater detail: before democratic reform, the Tibetans of the Kang area bore the heavy burden of the corvee labor known as wula. If a family had one able-bodied man, he had to spend two-thirds of the year on outside corvee labor, which occupied the serfs' essential labor time and depleted the agricultural labor force. Those families with only one able-bodied man obviously were hard put adapting to the ruthless exploitation of serfdom, while polyandrous families could avoid the division of family and property among brothers. Families thus maintained had a certain amount of wealth and many able-bodied men. Hence this kind of marriage and family pattern resulted from adaptation to the cruel exploitation of serfdom. As was mentioned above, it was extremely unfavorable to population growth.

Under Tibetan serfdom, polyandry and the abnormally large number of clergy created a surplus of women among the serfs and langsheng. Overall sex ratios in many Tibetan areas show females outnumbering males. It must be said that this is yet another peculiarity of the Tibetan population, about which Zhao Xuedong [6392 1331 5516] and Wang Ke [3769 0344] wrote an article. (Footnote 2) (Zhao Xuedong and Wang Ke: "A Brief Discussion of Tibetan Sex Ratios," "Population and Economy," 1984, issue 1).

Since democratic reform, and especially since the 3d Plenum of the 11th CPC Central Committee, the Tibetan population has entered a stage of accelerated growth. Tibet had a population of 1,622,330 in 1979 and 1,786,544 in the 1st half of 1982. During those 3.5 years it grew by 163,614 for an average annual increase of 2.74 percent. Tibet's population reproduction model has basically changed from one with a low birthrate, a high death rate and negative growth to one with a high birthrate, a low death rate and high growth. (Footnote 3) (Ibid.).

Before liberation, most minority nationalities had a feudal landlord economy. Studies of their population phenomena all note their prominent feudal consciousness, their regarding of men as superior to women and their early marriage. For example, according to old Hui custom girls reached adulthood at age 9 and boys at age 13; hence there were fairly many early marriages. Although things are different now, rural girls still marry at the age of 15 or 16 and rural boys at the age of 16 or 17. In 1980 early and illicit marriages accounted for about half the marriages in Zhangjiachuan Hui Autonomous County in Gansu. In rural Ili Prefecture in Xinjiang, boys and girls generally marry at 15 or 16, and marriages at 18 are considered late. Wives are constantly having children, so that by age 30 they generally have borne 10 or more. Families generally have five or six or even eight or nine children. In Dehong Dai-Jingpo Autonomous Prefecture in Yunnan, a fair number of persons marry at

age 14 or 15 or even 12 or 13. They are parents by age 15. The largest number of children per couple is 17. A family of six or seven children among the Jingpo is fairly common. (Footnote 1) (Zhou Qing [0719 3237] and Xiong Yu [3574 6735]: "Several Points About the Growth of China's Minority Nationality Population," "Population Studies," 1984, issue 2). Early marriage is also prevalent among the Lahu, whose girls marry at age 14 or 15. If Lahu girls have not married by age 18, they are called old maids and are ridiculed. The Zhuang, Jing and Mulam of Guangxi, the She of Guangdong and the Shui of Guizhou have similar marriage customs. Research on this matter indicates that these nationalities' early marriage and many children born too close to each other chronologically mean blind population growth, economic burdens for families, poverty, a low level of education and poor health for both adults and children.

Furthermore, the many nationalities with feudal societies believe that the children of one's sons are one's own posterity and that without sons, a man is the "last of his line." They strongly feel that males are superior to females and even have a rule that those who die without a male heir cannot be buried in the "ancestral cemetery." According to old Yi tradition in Ninglang County in Yunnan, only persons with a son were truly "human," while persons without a son were inferior and could not stand tall. Some researchers point out that these customs and ideas are extremely unfavorable to the practice of birth control. (Footnote 2) (Guo Dalie [6753 1129 3525]: "Old Traditions and Ideas Are the Crucial Reasons for the Fettering of Socioeconomic Development in Nationality Areas," "Social Sciences in Yunnan," 1983, issue 4).

3. Concluding Remarks

In sum, it can be seen that although the population phenomena of China's minority nationalities vary on the basis of each nationality's original society and economy and on the basis of each nationality's different culture and psychology, their population reproduction models have nevertheless changed. Before the establishment of the People's Republic, they essentially all belonged to the primitive model of population reproduction, i.e., high birthrate, high death rate and low growth rate. In the case of the Tibetans under serfdom, the birthrate was low, the death rate high and growth negative. Since the establishment of the People's Republic, and especially since democratic reform, the population model of each minority nationality has basically changed to one with a high birthrate, a low death rate and high growth. This kind of model also has the characteristic of a young population, which means peak population growth in the future. This needs our attention. Also noteworthy is the trend among minority nationalities like the Koreans, Bai, Dongxiang and (in some areas) Zhuang--that are practicing birth control fairly well--toward a model with a low birthrate, a low death rate and a low growth rate. (Footnote 3) (Zhang Tianlu: "Characteristics of and Changes in the Population Reproduction Models of China's Minority Nationalities," "Social Sciences in Yunnan," 1983, issue 4).

As far as the formulation and implementation of population policy concerned, demographic research on minority nationalities has also produced the following results that are valuable for reference:

(1) We must both pay attention to controlling minority nationality population growth and guard against arbitrary uniformity. On the basis of individual autonomous counties (banners) and in accordance with each nationality's socioeconomic development and population base, we must formulate a birth control policy suited to each area's specific circumstances. Some minority nationalities have rather large populations, rather high population densities and population scales and growth rates that have repressed or will repress their productive forces. On the one hand such nationalities must control their populations and in a planned way lower their birthrates and slow their growth rates. On the other hand they must take resolute economic measures to ensure the success of their population control policies and, moreover, to accelerate the pace of production of material goods so as to raise the people's living standard constantly.

Other minority nationalities have small populations, low population densities and rather backward economic development. These nationalities should adopt a policy of appropriate population growth. We should also help them develop their economy, education and health care so that their economies and populations can grow at the same time. For example, the Oroqen have a population of only 4,200 and hence are proper candidates for such a policy. Among the Oroqen of Heihe Prefecture, however, birth control has already begun, and each family has an average of 2.2 children. (Footnote 1) (Lin Shengzhong: "The Present State of the Oroqen Population in Heihe Prefecture and the Reasons for its Slow Growth," "Demography," 1984, issue 1). Such premature practice of birth control deserves discussion.

(2) When studying the issue of minority nationality population from an ethnological angle, we should also point out some minority nationality social systems, customs and habits that favor the practice of birth control. For example, the society of the mountain Yao (i.e., the Chashan Yao, the Hualan Yao and the Ao Yao) in Guangxi has a tradition of birth control. Their household composition is generally "two, two, two," which means that a couple has two children who support a pair of elderly persons. Each family designates only one child, male or female, as heir and marries off its daughter (or sends its married son to live in his bride's household). This is called "giving the inheritance to one child." The mountain Yao headmen say: "We have little farmland in the mountains. If we had many people, our supply of rice would be inadequate. You notice we have neither beggars nor robbers here." This is their simple recognition of the dialectical relationship between the production of material goods and human reproduction. This part of the Yao nationality has a special method of using Chinese herbal medicine to discontinue pregnancy. Their annual population growth rate has always stayed at approximately 8.3 per 1,000. (Footnote 2) (Liu Yulian [0491 3768 5571] (a Yao): "A Brief Discussion of the Issue of Having Children Among the Chashan Yao, the Hualan Yao and the Ao Yao" (mimeograph), paper read at Third Symposium of the Chinese Ethnology Society).

Furthermore, quite a few of China's minority nationalities do not believe that males are superior to females but instead believe that it is immaterial whether one has a son or a daughter. Among them there is even the customary belief that it is more gratifying to have a daughter. For example, male and

female occupy equal positions in the household among the Dai, Tibetans, Miao, Naxi, Qiang, Lahu, Zhuang and Dong. Among some nationalities both males and females enjoy the right to inherit property. The Lahu esteem girls so much that the birth of a daughter pleases them more than the birth of a son. In the areas inhabited by these nationalities, the prevalent custom is for a husband to live in his wife's household or for a family to marry off its sons and keep its daughters. It is the duty of husbands who live in their wives' households to support their parents-in-law; in those households they are looked upon as the real sons of their parents-in-law. This custom basically solves the problem of taking care of the elderly and effectively controls population and reduces the number of unnecessary children (borne in an effort to produce sons). It should receive vigorous publicity and promotion.

(Footnote 1) (Yang Heshu [2799 7729 2579 et al.: "Investigation and Analysis of the Population Question in Longsheng Multinational Autonomous County in Guangxi," "Studies in Ethnology," volume 5).

(3) The customs of the minority nationalities include many village compacts and stele systems. The Dong and Yao used to have a common law of "sincere agreements," as well as regulations concerning production, marital agreements, debt, defense and arrest. All the minority nationalities have the virtue of keeping their promises: once they conclude an agreement, they can abide by it scrupulously. We can utilize their sincere agreements to conclude pacts on birth control. In Guangxi's Longsheng County, for example, this method has obtained fairly good results. (Footnote 2) (Ibid.).

(4) In minority nationality areas where religious influence is still rather strong, we should unite with the religious leadership to help publicize birth control work. Practice proves that unity with that leadership encourages them to promote birth control among the masses of believers, which is often more effective than general propaganda. For example, in 1981 in the Hui areas of Jingyuan County in Ningxia, there was unity with the imams in birth control work, whose results were thus fairly good. (Footnote 3) (Tian Guang [3944 1639]: "Investigation of the Hui Population of Jingyuan County, Ningxia" (mimeograph), paper read at Second Symposium of the Chinese Ethnology Society).

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POPULATION

RAPID DECLINE IN CHINESE FERTILITY EXPLAINED

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[Article by Wu Cangping [6762 3318 5493], of the Demography Institute, China People's University. Paper presented at the Fourth National Conference on Demographic Science: "Theoretical Explanation for the Rapid Decline of Chinese Fertility"]

[Text] The decline in Chinese fertility has been known throughout the world since the 1982 general census of the Chinese population. The 1/1000th national fertility sampling survey reported that the overall fertility is 2.6. According to the latest figures from the National Statistical Bureau the 1984 birthrate was 1.7 percent and the overall fertility was 1.84. (Footnote 1) (Health News, Family Planning Edition, 12 November 1985) This achievement by a still economically and culturally undeveloped socialist country in bringing its fertility down to the replacement level attracted worldwide attention and praise. Many foreign friends call this one of the great marvels of human history. Yet in recent years some people who bear enmity for the Chinese people or, who because of prejudice, have greater knowledge than they have understanding of China's population problem have bitterly criticized this reduction in China's fertility. They claim that the decline in China's fertility was achieved through coercive policies. Thus scientific discussion of the causes of the rapid decline in Chinese fertility is not just an academic question but one of practical significance as well.

I. The Socialist System Created Favorable Social Conditions for the Rapid Decline in Our Country's Fertility

The most fundamental reason for the decline in fertility is economic development. If a certain degree of economic development is not achieved, there can be no decline in fertility. Our country's process of industrialization and urbanization brought the influence of the modern mode of production and modern lifestyles to every family and every individual and freed them from the shackles of the traditional family. They sought to improve the quality of their children, improve the quality of their lives and thus tended to

reduce fertility voluntarily. Although the economy operates on the macroscopic scale, decisions on fertility are made by individuals and families on the microscopic level. Thus the effect of the macroeconomy on fertility is not direct and nor is it always immediate. Economic development must work through socioeconomic factors influencing the family and the individual which induce couples to change their views on fertility before it can eventually influence reproductive behavior.

The experience of developed countries and of developing countries demonstrates that once socioeconomic factors which determine fertility, such as changes in the function of the family, decline in mortality and especially in infant mortality, an improvement in educational standards, improvement in the status of women and particularly improvement in the employment opportunities for women, social guarantees for the elderly, yearning for the modern mode of production and a modern life-style, a family planning policy and the dissemination of birth control information to many people occur, they will lead to a decline in fertility. The earlier these conditions appear and the more of these conditions that appear, the faster will be the decline in fertility. Our country is a developing socialist country. Although our country is making great economic progress it is far from being a modern country. The social conditions that brought about the decline in our country's fertility are due in large part to our country's socialist system, public ownership of the means of production, and the planning of the national economy. Furthermore the distribution of wealth is fairer in our country; there are no great extremes of wealth and poverty; far-reaching social reforms have been made in every area; and the present development of science and technology has made the social conditions which promote the change in fertility appear earlier and faster in China than they did in the past in the developed countries or are appearing in developing countries today. I will try to explain several of the aspects of these changes listed below.

A. Change in the Function of the Family and Traditional Concepts: The view that people should have many children arose from the traditional feudal family. Although the feudal view that the more children the better has long been held in China, since new China was founded the social basis of this feudal view that having many children is better has been shaken to its foundation through many different democratic reforms. Although throughout history the family has been the unit of production, since land reform and the collectivization of the means of production this has greatly changed. The educational function is no longer the responsibility of the family but has become the responsibility of the state and the collectivity. The principle of distributing according to one's labor has greatly changed the relations of family members and relations between families. Small families have the chance to develop. Under socialism changing the functions of the family and traditional family concepts does not necessarily require a high degree of modernization. Relying on social reform to accomplish these tasks is entirely possible.

B. Popularize Education To Raise the Educational Level of the Entire Population and Foster Education in Collectivism: The popularization of education and in particular the popularization of education among women is an important

cause of the rapid decline in fertility. The 1982 general census of the population and the 1/1000 fertility sampling survey of the entire country shows that women with a lower middle or a middle school education or better have on average 0.5 to 1 and 0.8 to 1.2 fewer infants. Although today China does not have a high average level of education, the number of primary and middle school students attending school has increased from several times to several tens of times. In 1949, there were only 1,268,000 middle school students attending school. In 1983 there were 56.78 million, an increase of 45 times. The number of primary school students increased from 24.39 million to 150 million an increase of 6.2 times. The fertile age cohorts of the 1970's were mostly educated during the 1950's. This necessarily caused the birth rate to decline. Under China's socialist system every level of education is free and education is supported and run by the state. Education is sometimes run by collectives or by localities as well. In China's circumstances it is not necessary to develop production and modernization to a high degree to popularize primary, lower middle and middle school education.

The problem of family size often reflects contradictions in the individual, the family, and the state. Chinese education, in line with socialist principles, lays great stress on education in collectivism. For a long time it has been educating the people in the interests of the collective and in the long-range interests of the country. Moreover it has fostered education in the rule of law, in communist morality, and has developed spiritual culture. This education which China has been carrying out for 30 years has, of course, considerably aided the decline in fertility. This is something the West cannot do and cannot easily understand.

C. Raising the Status of Women: Improvement in the status of women has made them realize that they are not just a machine for giving birth to and educating children. This is an important reason for the decline in fertility. Our country's popularization of education among women by expanding employment opportunities for women is another important condition for the decline in fertility. Since the founding of new China the improvement in the status of women on many fronts has surpassed that in many developed countries which have had movements for the emancipation of women for 100 or 200 years. Chinese women are not only the equals of men before the law in every area, such as government, education, and employment, but are also asking that they may gradually become the true equals of men. The 1982 general census of the population shows that Chinese women have a higher employment rate than any country in the world. Throughout the world employed women have, as a rule, lower fertility than housewives. China's social policy guarantees the equality of educational and employment opportunity for men and women.

D. Decline in the Death Rate: A decline in the death rate, and in particular a decline in infant mortality, is a necessary precondition for a decline in fertility. Historically, spontaneous declines in human fertility have been preceded by declines in the death rate. When the death rate is high, the survival rate of children is very low. Without high fertility these losses could not be made up. Once the death rate declines and the survival rate of

children rises, many different factors will lead a family to spontaneously limit family size. If families are too large, people will feel it is difficult to support them, improve the quality of their lives, and for their children to get better employment. The decline in China's death rate since liberation is among the fastest in the world. Infant mortality fell from 20 percent at liberation to 3.5 percent in 1981 while life expectancy climbed from 35 to 68 years. The principal reason for the decline in China's death rate is the concern of our country's government for the health of the people and its development of health facilities. Prevention is the main policy. In the cities and in the countryside new methods of midwifery and of protecting the health of mother and child were popularized. Rural medicine and health were stressed. Moreover China adopted many different medical systems for medical care including payment by the state, and free and reduced fees for services. The best results and measures of medical science achieved anywhere in the world were adopted. To lower its death rate and still achieve excellent results, China does not need to spend the enormous sums on health care that Western countries do.

E. Provide a Certain Degree of Social Guarantees for the Elderly: In economically undeveloped countries raising children for security in old age is an important reason why families want to have many children or a boy. However, since new China was founded a retirement system has been established for staff and workers and labor insurance created for the workers. Although the villages have no social insurance system, collectivities have taken on the responsibility of supporting and helping the elderly and according to their economic level implement to differing degrees the "Five Guarantees" [childless and inform persons are guaranteed food, clothing, medical care, housing and burial expenses]. Several villages which are better off economically have begun a retirement system. Moreover the state and society help childless elderly people who have no one to depend on for support. The constitution clearly stipulates that "Citizens who are elderly, sick, or have lost the capacity to work have the right to material help from the state or from society." Although China is not a developed country, the people have already seen that sharing the wealth is the fundamental principle of a socialist system and accordingly are convinced that as the economy develops the elderly will enjoy social guarantees late in their lives. This to a certain extent weakens the idea of having children to provide for one's old age which is a great obstacle to reducing fertility.

F. China's Social Organization and Dissemination of Various Kinds of Information Accelerated the Exchange and Development of Birth Control Information and Methods: During the 19th century and the early part of the 20th century birth control depended principally on the communication of birth control experience from one person to another. In general, the modernization of communications has accelerated this process. China has special advantages in communicating birth control information. One is that public ownership of the means of production has made the social organization of China sound. China's household registration, food rationing, and many other institutions all require administration by different kinds of residential committees and

grassroots organizations. The second is that since the founding of new China communications and transportation networks have spread everywhere. The third is that China accumulated thorough knowledge of organizing at the grassroots during the long revolutionary war. Thus, although televisions and telephones are not common in China's cities and rural areas and there are still illiterates, practically every corner of the country has mail and telephone service as well as wireless and wired closed-circuit broadcasts so that important information reaches everyone very quickly. The penetration of important information is even greater than in some countries with the most modern advanced means of communication.

Our country's social environment in many direct and indirect ways influences families and individuals and thus affects their reproductive behavior. This is shown in two principal ways: 1) changes in views on reproduction. Under the new social conditions the older generation no longer holds strongly the view that more children are better and the younger generation thinks that having many children is an odious and backward idea and leans toward smaller families. 2) The social environment has cleared a large way for smooth progress in China's family planning. For the last 30 years China has had social conditions appropriate for a decline in fertility. This process continues today. Likewise, declines in fertility did not appear at once. These declines are rather the result of ideas gradually and inconspicuously penetrating the age cohorts of reproductive age under China's special social conditions and bringing about a gradual change in their views on reproduction.

The significance of social conditions favoring declines in fertility shows us that we must create even better social conditions in order to consolidate the downward trend in fertility. The economic reforms in China's cities and countryside and the further opening China to the outside world have raised doubts in the minds of some about family planning work. Particularly after the villages implemented the responsibility system, the people believed that some families have greater productive capacities than others and the villages want to have more children in order that they will have the labor of the children. Experience demonstrates that once the truth has been explained clearly, peasants living under socialism will not heedlessly seek to have many children. They realize that depending upon the manual labor of children to get rich has little chance of success and that it will not get a "return" on "family investment" for a long time. The peasants have seen that the forces of production are moving ahead and that an uneducated simple labor force is a drag on the family and society. Only by relying on a labor force with a certain degree of scientific and technical skill can production be developed and people achieve wealth. Statistics show that China with an overall fertility in 1982 of 2.0, a decline from 2.63 in 1981, has already reached the replacement level. This convincingly demonstrates the implementation of the responsibility system in the villages will not change the basic downward trend in fertility.

With the economic reforms in the cities and the countryside, the urbanization of the population is accelerating, industry in the countryside and in the

townships is prospering, and several modes of management are developing which are transforming the old structures of production in which agriculture played the dominant role. Laying aside the matter of the modernization of production, the modernization of daily life also influences Chinese society to a varying degree. Electric and electronic products have become consumer products which people with small families in the city and the countryside can realistically aspire to own. The desire of people for a modern way of life is also going to influence people in the reproductive age cohorts to reduce their fertility. Thus the prospects for low Chinese fertility are optimistic.

II. The Effect of Family Planning on Inducing and Accelerating the Decline in Fertility

China's family planning work most definitely had a very large part in the rapid decline in Chinese fertility. However if we ignore changing social conditions and believe that we can rely on family planning alone to change fertility, this is no different from denying that the change in the population is an objective law and holding that the population may be manipulated as one desires. The great effectiveness of family planning is making a change in fertility appear earlier or making fertility decline faster once the social conditions favorable to a change in fertility have appeared.

Thus, Chinese fertility could decline rapidly once a favorable social environment for changes appeared. Individuals and families spontaneously desired to limit the size of their families. China's population policies could benefit from these favorable trends and use family planning to considerably accelerate the rate at which fertility declined.

In Europe and in some of other areas of the world, countries have found that when there is social and economic stagnation relying on family planning alone is not very effective. However, once fertility has begun to decline by one-tenth, declines in fertility accelerate and can continue. Therefore the acceleration in the decline in China's fertility does have a historical basis.

China has carried out family planning for a fairly long period. During the 1950's this began to safeguard the health of mothers and infants. At the beginning of the 1960's, family planning was promoted as "control appropriately the rate of natural increase of the population" but since family planning was in a very early stage and it was not yet carried out vigorously the results were unclear. During the 10 years of chaos family planning, paralyzed by anarchy, was carried out in fits and starts. At the beginning of 1973 the State Planning Conference explicitly made population part of the economic plan and the State Council set up a committee on family planning. In 1974, Comrade Mao Zedong declared that "the population must be controlled" in December of that year, again set forth the slogan "births should be late, well spaced and few" and made birth control medicines and equipment available free of charge. Family planning came to have an ever greater importance to China's daily agenda. However, deep understanding of the population problem and vigorous promotion of family planning came only after the "gang of four" was smashed, and especially after the Third Plenum of the 11th CPC Congress. The

call for each couple to have only one child did not come until 1979 as appeared in the 25 September 1980 "Open Letter" of the CPC Central Committee. However, the decline in China's fertility began in the late 1960's and signs of a decline in fertility appeared in some areas even earlier than this. At the outset of the 1970's, this trend was obvious but family planning had not yet fully demonstrated its effectiveness. Only after the mid-70's was the effectiveness of family planning in accelerating the decline in fertility well understood. The following aspects of the time series suffices to demonstrate the accelerating functions of the spontaneous decline in China's fertility and family planning.

A. Age at First Marriage: Historically, changes in fertility have almost always begun with a rise in the age at first marriage. According to the 1/1000th fertility sampling survey, the age at first marriage in China began to rise in the 1940's. After the founding of new China the tendency for the average age of women at first marriage to rise became more evident and early marriage became nearly extinct in the cities and rare in the countryside. The average age at marriage rose steadily. The peak years for marriage and having children rose steadily. The data is presented below.

1. Change in early marriage by Chinese women: The proportion since the 1940's of women 15 to 17 already married: 1940, 51.4 percent; 1950, 48.3 percent; 1960, 32 percent; 1970, 18.6 percent; and 1980, 5.2 percent.

2. The change in the average age of Chinese women at their first marriage is as below:

	1940's	1950's	1960-64	1965-69	1970-74	1975-80
Urban	18.8-19.6	19.2-20.8	21.5	22.6	23.1	24.8
Rural	18 -18.5	18.4-19.0	19.3	19.6	20.3	22.1

3. The peak age for Chinese women at their first marriage was 17.4 in the 1940's, 17.9 in the 1950's, 18.8 in the 1960's and 21.5 in the 1970's. In 1970, the peak year of age at first marriage was between 19 and 20 years of age. This rose to 21 by 1975. After 1976, most women married between 22 and 23 and by 1980 the peak age for first marriage was 23. This demonstrates convincingly that family planning accelerates declines in fertility.

4. The Chinese late-marriage rate grew steadily and gradually until 1972. During the 1970's the late-marriage rate for the entire country was 16.3 percent. It rose very rapidly between 1973 and 1979. The late marriage rate for the women of the entire country jumped 5.2 percentage points annually to 52.9 percent in 1979.

This data shows that the age at marriage of Chinese women spontaneously rose as social conditions changed. Age at first marriage began to rise rapidly from the middle of the 1970's when China began to carry out family planning effectively.

B. Fertility. Since liberation a social environment favoring fertility decline appeared and a spontaneous decline in fertility became possible. The 1/1000th fertility sampling survey demonstrates this. Overall fertility in the 1960's was 5.68, a decline from 5.87 in the 1950's. However, in this period China had three difficult years of abnormally declining fertility beginning in 1958 and falling more rapidly between 1959 and 1961. A compensatory sharp increase in fertility beginning in 1962 and 1963 lasted for 3 or 4 years. Thus data examined in 10-year periods will show large disturbances. If we compare fertility by eliminating these abnormalities we find that fertility from 1952 to 1957 was 6.22 and from 1967 to 1970 it was 5.96. From 1971 to 1975 fertility declined sharply to 4.54. If we compare the overall fertility in 1952, just after land reform, with overall fertility during 2 years at the close of the 1960's we can see more easily the spontaneous decline in fertility and the role of family planning in accelerating this decline. (see table below)

In addition, comparing fertility by age cohort for the years 1964, 1970 and 1981 we can see that although in 1970 all age cohorts had slight declines in fertility, once the 1970's began fertility declined rapidly. See the data below:

		China		Urban		Rural			
		1952	6.5	1952	5.5	1952	6.7		
		1969	5.7	1969	3.3	1969	6.3		
		1979	2.7	1979	1.4	1979	3.0		
		1984	2.1	1984	--	1984	--		

Year/Age	15-19	20-24	25-29	30-34	35-39	40-44	45-49	Total
1964	0.067	0.290	0.307	0.256	0.188	0.095	0.011	6.078
1970	0.042	0.273	0.304	0.254	0.178	0.079	0.011	5.703
1981	0.012	0.193	0.211	0.068	0.031	0.012	0.003	2.652

C. The Pattern of Fertility: The history of demographic changes demonstrates that spontaneous changes in fertility began with late marriage, giving birth late, and giving birth to the last child at an earlier age. Only later does fertility in the peak ages for giving birth decline rapidly.

1. In the latter half of the 1960's the fertility of Chinese women in the cohorts aged 15 to 19, 40 to 44, and 45 to 49 was lower than in the first half of the 1960's and lower than it was during the 1950's. This demonstrates clearly that fertility had begun to decline spontaneously. These three age cohorts began large fertility declines around 1973, clearly demonstrating thereby the role of family planning in accelerating declines in fertility in these three age cohorts.

2. By 1970, the number of urban women who had given birth to three or more children had fallen by more than one-half, bringing down the national average of women who had three children and three or more children to 62.2 percent. However, the effective implementation of family planning accelerated the decline in the proportion of women who had more than one child to 44.6 percent in 1977, 28 percent in 1981 and 19 percent in 1984.

3. In 1979, China put forth the call "only one child per couple" but even before this some Chinese women wanted just one child. Furthermore the proportion of those who wanted one or two children increased. This can be seen from the number of surviving children of women in different age groups and from the 1982 population census.

The Percentage of Women With 1, 2 or 3 or More Children by Age Cohort of Women in 1982

1981 Census Cohort	1979 Cohort	1 Living Child %	2 Living Children %	3 or More Living Children %
1) 30-39	28-36	8.8	28.2	63
2) 40-49	37-46	2.7	8.1	89.2
3) 50-59	50-56	5.6	8.3	86.1

Women in these age cohorts by 1979 were already beyond their most fertile years. Comparing these age cohorts revealed that cohorts 1 and 2 had children during the 1950's or the beginning of the 1960's and that cohort 3 had children in the early 1950's or before liberation. The proportion of women in cohort 1 with two children is clearly greater than the proportion in cohorts 2 and 3. This shows that women had voluntarily begun to reduce their fertility. Since having just one child was promoted in 1979, the proportion of couples having just one child has risen very sharply. In 1977, first births accounted for 30.9 percent of all the infants born in China, climbing to 46.6 percent in 1981 and 56.5 percent in 1983. (Footnote 2) (Data from the State Family Planning Commission)

D. Regional Differences in Changes in Fertility: European experience of demographic change shows that in countries with uneven economic development demographic change begins with one segment of the population and spreads from there to the entire population. Nearly always fertility declines first in the cities and then low fertility spreads to neighboring areas and areas with a cultural level similar to that of the cities and finally to the entire country. China's urban fertility began to decline fairly quickly around 1965. From 1952 to 1957 overall fertility in the cities and townships was 5.6. By 1965 to 1970 fertility had declined to 3.4. Shanghai was the first to show a drop in fertility. Shanghai's overall fertility according to the 1/1000 fertility sampling survey was 4.75 in the 1950's and 2.83 in the 1960's. The decline in Shanghai's fertility began as early as the latter of the 1950's. Fertility

in Jiangsu Province, neighboring on Shanghai, and Liaoning Province, the province with the highest proportion of its population in cities and townships, declined spontaneously from the latter half of the 1960's. Fertility in Shanghai, Jiangsu Province, and Liaoning Province declined more rapidly once family planning was vigorously developed. By 1981, overall fertility in Shanghai had fallen to 1.32 and in Liaoning Province to 1.77, making fertility in Liaoning Province fall from among the highest among China's provinces to the lowest. By 1981, fertility in Jiangsu Province had fallen to 2.08, the replacement level. According to information released by the Jiangsu Province Family Planning Committee overall fertility had fallen to 1.4 in 1984.

Fertility in areas neighboring on provinces and core areas of Beijing, Tianjin, Shanghai, Liaoning, and Jiangsu, such as the three provinces of the northeast, Zhejiang, and Shandong also gradually declined.

III. The Social Conditions Favorable to the Development of Family Planning in China

Today more people throughout the world recognize that in reducing fertility there is a great difference between having a family planning policy and not having a family planning policy. Some scholars even believe that family planning policy alone can make fertility decline. Practice demonstrates that some countries have carried out very effective family planning programs while some other countries have not had effective programs. For example, India in 1952 set and implemented a family planning policy but it was not very effective compared to the family planning programs carried out much later by Thailand and Indonesia. The differences between these programs involve the social conditions for carrying out family planning and the way family planning work is carried out.

There are some abroad who are confused by or cannot explain the rapid decline in fertility after China carried out family planning. Some who misunderstand believe that China relied on force to carry out its family planning program. They are unable to understand that China's socialist system has opened up a new way to family planning which foreigners are unable to do when they carry out family planning.

First, all the nationalities of the entire country agree on the population problem and on family planning. This is fundamentally different from foreign countries where political parties attack one another on the questions of population and family planning in order to gain partisan advantage. The leaders of many countries conceal their own views on family planning so that these views cannot be used against them by their political opponents. People never speak sincerely on family planning because social forces openly oppose it.

History shows that family planning has not spread quickly in the past because churches, physicians, and some organizations openly opposed it. Dissemination of birth control information was not legalized. Even today some countries have not entirely shaken off these influences.

China recognizes that family planning is the path that mankind must take and so does not conceal its viewpoint on this matter. We have legalized family planning and openly proclaimed that it is a fundamental national policy. Laws and the constitution stipulate clearly that family planning is the right and the duty of every citizen. China has made family planning one of the components of spiritual culture. These are important conditions for China's implementation of family planning.

Second, the planned national economy under China's socialist system made China's family planning take a broad macroscopic perspective. This is different from the microscopic view of the West which considers only the family and the couple. Family planning at the level of the family is unrealistic from the macroscopic perspective. By taking the macroscopic perspective, the demands of the state as well as the wishes of the individual and the family can be combined. Family planning obtains the leadership of the state and proceeds in a planned, gradual manner. Moreover from this strategic height the problems of the quality, distribution, structure, and aging of the population can be considered together with society, the economy, the ecological environment, and the technological revolution. Giving the goals of national development and population control to the masses and making them realize that the demands of national development will require higher quality rather than more quantity in the population will make family planning work part of their conscious behavior.

Third, under socialism carrying out family planning work is part of the work of all the people. A government department takes responsibility for overall coordination. Other departments, such as the medicine and health department, the department in charge of the production and distribution of birth control medicine and equipment, the education and research department, the household registry department, the statistical department, the treasury department, the propaganda department, etc., all assume some responsibility as well. Each social organization, such as labor unions, women's organizations, youth organizations, etc., coordinate their activities, becoming an integrated force carrying out comprehensive measures and mobilizing government and mass family planning organizations. This arrangement can scarcely be compared to the "one-man shows" of private and semigovernmental organizations promoting family planning in many countries.

Furnishing birth control medicines, equipment and techniques free of charge is a very important part of promoting family planning. Only a socialist country with public ownership of the means of production could supply a reproductive age population of nearly 500 million people free of charge. In some developed countries, for various reasons appropriating funds for birth control medicine, equipment, and medical operations as well as for different kinds of subsidies is difficult.

Fourth, in Chinese society there are organizations at every level and grass-roots organizations form a very efficient system for disseminating information which permits family planning propaganda and free birth control medicine and equipment as well as medical operations to reach the people without any obstacles. Moreover, this same system easily feeds back information to the guiding department of the state so that family planning can master the situation in a timely manner, discover shortcomings, rectify errors promptly, and guide different areas differently according to regional peculiarities and make family planning proceed smoothly in China.

Changes in China's social environment made a change in views on reproduction a possibility. The development of family planning made this possible change in fertility a reality. Family planning policy can play a very large role in accelerating the decline of fertility only if this policy first reflects the characteristics and requirements of this demographic change. If it does not accurately reflect these changes it cannot induce a decline in fertility or will cause a merely temporary decline. Therefore, family planning must be continually examined in the light of practice and continually adjusted and improved as it is being carried out in order to adapt it to new situations.

In carrying out family planning or in implementing a population policy we cannot understand it as simply another way of saying we are aiming at achieving a certain population target or reducing the number of births. It must have a rich and profound content including the ideology that guides it and the methods it uses to achieve its goal. Some foreigners think of China's population policy as "the one-child policy." This is a very lopsided view because China's population policy includes many policies for different situations in different regions, for different nationalities, in different periods of time in addition to the policy of raising the quality of the population. In order to thoroughly implement China's family planning policy we must further stress the policy of combining the leadership of the state with the desires of the individual. Persuading people through education is an indispensable part of family planning work. In addition, we must pay strict attention to efficiency in the supply of birth control techniques and of medical services.

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